CURRENCIES AFTER THE WAR

A Survey of Conditions in Various Countries

COMPILED UNDER THE AUSPICES OF

THE INTERNATIONAL SECRETARIAT

OF THE

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PREFACE.

IN view of the importance of the economic problems arising out of disorganised currencies in many of the principal countries of the world, the Economic and Financial Section of the League of Nations Secretariat thought it well to collect information on the subject (in order that the Assembly of the League might have material available as a basis for discussion). It was anticipated that the first meeting of the Assembly would take place before the end of 1919. The information that has been collected is now in some cases somewhat out of date, but though the position has altered considerably since the time when most of the chapters were written, it has been thought desirable, in spite of this drawback, to publish the results for the benefit of those who are interested in the subject and may not find such information easily accessible. For the purpose of collecting the information, the assistance of a large number of experts of different nationalities was obtained.

The information is necessarily incomplete and of different degrees of value, and it has not been found possible to include all countries, or even all the principal countries. Care has been taken to ensure that the character of the work and the accuracy of the information obtained is of a high standard, but the Secretariat must not be taken as guaranteeing accuracy on every point. Such errors and omissions as may be found are due to the complexity of the subject and to the exceptional difficulty of obtaining reliable information at the present time.

The intention throughout has been to present an objective statement of facts on which future policy must doubtless be based, but not in any way to criticise existing policies or to suggest the lines upon which future policies should be framed. It has been thought well, however, to include as an Appendix, the recent Memorial submitted by prominent signatories in various countries

to their respective Governments, as being the most recent and most authoritative survey of the present position and the possible remedies which has appeared in the public press.

It is hoped that with these necessary limitations the book will provide information of value to Government officials, financiers and others, and that in view of the widespread interest in currency problems it may reach an even wider public in many different countries.

It remains to acknowledge the deep obligations of the Secretariat of the League to the following financial experts who have voluntarily devoted much time and trouble to the preparation of the several chapters :—

Sir Charles Addis,
M. Avenol,
Commendatore Ceresa,
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Mr. Hartley Withers,
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Dr. G. Vissering,
M. P. Volckmar,
M. Marc Wallenberg,
Dr. P. de Wolff,
Mr. R. C. Wyse,

and generally

Mr. O. T. Falk and
Mr. H. A. Siepmann.

J. A. Salter.

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INTRODUCTION

The memoranda collected together in this volume give a brief sketch of the existing state of the currency and foreign exchanges in a number of the more important countries, and also in most cases some account of the currency and banking system as it was before the War. The accounts of the pre-war systems may seem superfluous and out of place, but these systems are of great importance from the point of view of reconstruction, because they will not readily be abandoned, and must, therefore, of necessity form the foundations of any new international or national structures. Moreover, in many cases the data are not easily available from existing sources. Where the existing literature about the pre-war system is copious, as in the case of the United States and the United Kingdom, the account given in these memoranda is as a rule correspondingly brief.

Everywhere the pre-war system has suffered from some disturbance during the last five years, in many countries it is out of order, and in some it has almost broken down and ceased to function. The memoranda exhibit some of the harmful effects of this disorganisation and breakdown upon trade and industry, but in this respect the picture is very incomplete, because there are no separate accounts of present conditions in most of the countries of Central Europe. There are several reasons for this omission. In the first place, it was extremely difficult, if not impossible, to obtain reliable facts about these countries; statistical data are almost non-existent, and the evidence of individuals differs so much that it seemed better to record none of it. In the second place, conditions not only vary considerably in different localities even within the same country, but —what is more important—they change very rapidly, so that data collected to-day would be obsolete and almost useless six months hence. In the case of Poland

and all territories, which are part of the former Austro-Hungarian Monarchy, further changes must necessarily result from the financial and economic clauses of the Treaty of Peace. Finally, the disorder is often so great that it is very doubtful whether much of the system as it exists at present can be used as a foundation for reconstruction. The pre-war currency and banking system, if there was any at all, has in these cases suffered such a complete wreck that there can be no object in referring to it as the type to which the new systems yet to be constructed should conform. A fairly full account has been given of the main features of the Russian breakdown. This is an extreme case, but it differs in degree rather than in type from the greater part of Central Europe.

The main results of the war disclosed by the memoranda as a whole may be summarised as follows:—

(1) All currencies have depreciated in terms of commodities. Even those countries, such as Argentina, which have escaped the necessity of special expenditure for military purposes, have failed to escape from a rise in commodity prices. In fact, neutral countries have been more or less compelled to endure many of the financial and economic ills which have fallen upon the belligerents.

(2) Most currencies have depreciated in terms of gold.

(3) Gold itself has depreciated in terms of commodities.

(4) There is a remarkable relation between the expansion of currencies and the rise in commodity prices. This is exhibited very clearly in the tables in Appendix "B" reprinted from a British Official Paper. Whether this relation is causal or not is still a matter of dispute, though most leading authorities attribute the rise in prices to the use made by Governments of currency and bank credits for financing expenditure.

(5) In certain cases, such as that of Germany, there is a great disparity between the internal and external commodity values of the currency.

(6) Everywhere currency and exchange disorder is hampering trade and retarding reconstruction. In some countries it is a prime factor amongst those which are causing a breakdown of the economic and social system.

The last of these results is incomparably the most serious. The mere fact that currencies have depreciated would not by itself be a sufficient cause for alarm. But since through the breakdown of currencies at this time the whole pre-war economic system is threatened, the problem becomes at once most urgent and difficult. The trouble is now twofold. In the first place, all currencies have lost their stability, and some are almost valueless. In the second place, the very countries which, like Austria, are short of essential commodities, are unable to obtain credit. Instability of currency helps to deprive these countries of the possibility of obtaining credit, and lack of credit prevents the stabilization of the currency.

During the last few decades before the war the currency of every important country afforded a standard of value which from the point of view of stability was, though imperfect, fairly satisfactory. Changes in the general price level of commodities were so gradual that they were hardly noticed by any but economists and historians. Though these changes undoubtedly affected the profits of trade and industry and the welfare of wage earners, they were a factor no one attempted very seriously to discount. Other factors, such as changes in the relative values of different commodities and the workers' share of the total product, not only appeared to be, but in general actually were, of vastly greater importance.

But since 1914 the instability of currency values has been of an entirely different order. Even in countries where the financial disturbance caused by

the war has been relatively small, changes in the price level have occurred in the course of five years which before the war would have been regarded as large if spread over a century. In no important country have commodity prices risen much, if anything, less than 100 per cent. As a result, a factor in the economic life of the community which was previously considered to be relatively unimportant now occupies a prominent place in the minds of all. It is now a factor for which everybody must and does attempt to make allowance in advance before entering into any time contract. The basis of short period contracts, of wages and of salaries, is now adjusted almost monthly to the rising level of commodity prices. The difficulties and the delays of the adjustment are a prime cause of industrial unrest. Profits, sometimes apparent only, but often real, which many traders and manufacturers have derived from this constant rise, have caused an outcry against profiteering and have increased the dissatisfaction with which many wage earners regard the capitalist system. Fears that the rise will stop and be followed by a heavy fall have occasionally tended to check enterprise, and immediately after the Armistice this became a factor of considerable importance.

In extreme cases the rapidity of the depreciation of currency has already almost destroyed its use as a store of value, even for short periods, and the effect upon the economic organisation has been disastrous. Thus in Russia and parts of Central Europe the agricultural community can obtain little else but money in exchange for the grain and other produce they have to sell. Of money they already have large hoards; they see its purchasing power rapidly vanishing, and they have little hope of buying anything with it, either immediately or in the near future. It is, therefore, natural that they prefer to hoard their grain or even to cease growing it.

The effect of the instability of currency values upon internal trade and industry is serious enough, but the effect upon international trade is perhaps still greater and more harmful. International trade on the modern

scale by means of barter would be an impossibility; it can only be conducted with the assistance not only of money but also of credit. But the use of credit involves time bargains in money, so that if on the balance of all sales and purchases a country grants credit to foreigners, either the creditors or the debtors must run an exchange risk in respect of the indebtedness of which the date of settlement is postponed. Neither by the clearance of spot transactions nor by sales and purchases of forward exchange can bankers eliminate this risk. Before 1914 confidence in the currencies of the principal countries of the world extended far beyond their respective national boundaries. A creditor in any country was generally quite satisfied if the debt owing to him was expressed in terms of sterling, and he accepted with almost equal readiness promises to pay other currencies. Moreover, and this is a point of great importance which is less generally recognised, a debtor had usually sufficient confidence in the stability of the foreign exchange value of the currency of his own country to induce him to undertake sterling or other foreign currency liabilities without hesitation. Thus, before the war when most of the exchanges were stable, the risk of large exchange fluctuations was rarely considered to be of great importance, and the arrangement of international credits was not seriously hampered by it. But the position in this respect is now entirely changed, and can best be illustrated by the case of the United States. The United States are at present able to export, and are exporting more goods and services than they are importing. European and other countries have to settle the balance with promises to pay. These promises must be expressed in dollars or in some other currency. Americans hesitate to run the risk of accepting promises in any currency but dollars, and the debtors hesitate to undertake dollar liabilities. Within some countries, such as Germany, the commodity value of dollars moves quite independently of the commodity value of dollars in the United States, and, in fact, is rising far more rapidly. In such cases the risk of debtors who have borrowed dollars is a real and heavy one.

The case for the restoration of stability is unanswerable, but it is by no means clear what course should be pursued in order to attain this end. It will be noticed that the questionnaire upon which these memoranda are based included a request for information as to proposals for currency reorganization. The replies showed that very few authoritative proposals have yet been made. It would indeed be useless to attempt to construct and put into operation a new currency system so long as the essential data are continuously and rapidly changing under the action of forces which would upset the equilibrium of any system however perfect. In fact, it seems evident that something approaching currency stability must be attained before currency reorganization by legislative action is attempted. The conditions of stability have been clearly indicated by the economists and others who have analysed the causes of instability; the most important are the termination of inflationist methods of financing Government expenditure, the settlement of international balances of trade and payments by means involving a far less considerable strain than that which at present presses upon the currencies of borrowing countries, the elimination of the large and incommensurate potential cause of the disturbance of currency values constituted by the large foreign holdings of some currencies, and the internal private hoarding of others, and the removal of much of the uncertainty which at present exists as to the effects of the economic and financial clauses of the Treaties of Peace.

An immediate legislative reorganization of currencies might well prove premature for other reasons also. It still remains to determine what the fundamental basis of the new systems shall be. A universal gold standard with gold currencies of the pre-war British type is generally regarded as impracticable; the way for universal or all but universal adoption of some form of gold exchange standard has not yet been prepared by either economists or business men. Still less have they considered how under future conditions reasonable

stability is to be given to the value of gold or of such other single or multiple standard as it may be decided to adopt.

To the problem of currency, as has already been said, the question of credit is complementary. The lack of credit from which some countries are suffering has been emphasized in a very important memorial presented in January last to the Governments of several of the leading powers. The memorial is reprinted in an appendix to this volume. The signatories suggest the summoning of an international conference to examine the world economic situation, and recommend plans for dealing with it by means of international co-operation. It is perhaps by international co-operation alone that we can now hope to stay the breakdown of currency and credit which over large areas is rapidly developing into a disaster of the first magnitude.

QUESTIONNAIRE.

All Chapters except the first are based on Memoranda written in reply to the following Questionnaire.

1. A very brief summary of the essential features of the currency and banking system of the country before the war. This should not exceed 1,000 words, probably 200 to 300 should suffice.

2. A very brief summary, not exceeding 1,000 words, of the use made of currency issues and banking credit to finance the Government of the country during the war, particularly as affecting the present currency position.

3. Statistical tables, if available, showing for the 30th June, 1914, and the 30th June, 1919, or for dates as near thereto as possible:—

(*a*) The gold and silver holdings of the country in the hands of the Government or Central Bank.

(*b*) Circulation of home currency issues and bank notes. If there is a large circulation of foreign notes, this should be referred to in a footnote.

(*c*) Estimates as to amounts of gold and silver coin in the hands of the public.

(*d*) Bank deposits, including those of the Central Bank.

(*e*) Par rates of exchange on New York and London. Current quotations for cable transfer on New York and London (30th June, 1914, and 30th June, 1919).

4. A brief account of the system of currency and banking at present in operation with special reference to :—

(*a*) Permanent alterations of the pre-war system.

(*b*) The position of currency and bank note issues in respect of convertibility and acceptability, both legal and customary.

(*c*) Official control of dealings in foreign exchange.

(*d*) Official support of the foreign exchanges.

(*e*) The various forms of currency in actual use within the country as media of exchange, their relative values, their acceptability, and, if the issues of a foreign Government, their legal position as claims against that Government.

(*f*) Hoarding of metallic and note currencies.

(*g*) Extent to which trade is conducted by barter owing to refusal of payments tendered in currency, and in general how trade both internal and external is being in fact effected.

(*h*) Any pending currency changes.

5. An account of the principal factors affecting the foreign exchange situation of the country at the present time, such as :—

(*a*) Balance of trade.

(*b*) Foreign indebtedness.

(*c*) Currency depreciation by inflation.

(*d*) Uncertainty as to financial position.

(*e*) Uncertainty as to political stability.

6. Summary of opinions of recognised commercial and financial authorities as to effect of depreciated and fluctuating exchanges, as distinct from lack of credit, upon international trade of the country.

7. A brief summary of any important proposals made by national or international bodies, official or private, or by private persons, with regard to national or international action or policy aiming at a reorganisation of the currency and foreign exchange situation of the country.

8th September, 1919.

PART I.—EUROPE.

CHAPTER I.

Austria, Hungary, Poland, Jugo-Slavia, Czecho-Slovakia, Finland.

Detailed statement neither possible nor helpful.

1. No detailed statement of the currency and exchange position in these countries can be given. The facts are not available, and existing conditions are so mobile that any description can scarcely be more than momentarily accurate. In fact, the more detailed and accurate the portrayal, the more ephemeral and useless it would be. Still less would it be helpful to attempt any comparison with pre-war conditions, as has been done in the memoranda dealing with other countries. For in most of the cases now under consideration, links with the past have been deliberately broken, and the pre-war system cannot serve as a basis of reconstruction.

But existing conditions instructive and important.

2. But though the available information is scanty, the fact remains that existing conditions are instructive and important, if only because they illustrate in an extreme and striking form root evils from which Europe as a whole is suffering. The immediate need is greater and more urgent in these countries than elsewhere, and it is here that the most convincing proof is to be found of the necessity of reorganizing not these particular currencies and exchanges, but the currency and exchange disorders of Europe as a whole, by comprehensive international action. For this reason it has seemed best to include among these memoranda a general sketch in broad outline of the position in these countries taken together, and to illustrate this general description only

by a small number of details selected indiscriminately from one case or the other, without any pretence of giving a full or comprehensive account of the particular difficulties of each. The detailed history of economic developments in the new countries during the last twelve months can be followed by the curious in the "Berichte aus den Neuen Staaten," published in Vienna (Rockhgasse 4).

Special problems of the lesser Powers.

3. In general it may be said that these countries suffer from all the prevailing disorders characteristic of their greater neighbours. But their troubles are aggravated by a number of special factors which affect only the lesser powers; and it is these aggravations which it is proposed to consider here, as being the special characteristics of the countries named.

(i) *Direct disturbance of currencies by war.*

In the first place, it is to be noted that whereas in England, France, Germany and elsewhere currency and exchange have been disorganized indirectly by the economic disturbances incidental to the war, in the new countries the war has in most cases exercised not only an indirect but also a direct influence upon the currency, necessitating changes which yet further complicate the economic situation. In Poland no less than five separate currencies circulate concurrently, each with its own political history—German Marks (the pre-war currency of Posen), Austrian Crowns (the pre-war currency of Galicia), Russian Roubles, Polish Marks (issued by the Government during the German occupation), and Lithuanian Marks (issued by the German authorities during the occupation of Lithuania). The substitution for all these of the new Polish Zloty, equivalent in value with the franc, presents a problem of the utmost difficulty. Similarly in Czecho-Slovakia the political changes brought about by the war necessitated the stamping and restamping of existing notes, and the withdrawal of 50

per cent. of the amounts current in March, 1919, as a forced loan at 1 per cent.—a process which involved the closing of the frontier for 14 days, and has given rise since then to innumerable difficulties on account of smuggling, forgery and confusion of every sort. The issue of an entirely new national currency in the form of State notes has now been begun.

(ii) *Administrative inexperience and temporary lack of co-ordination.*

4. Secondly, these additional difficulties have had to be met by an administration which was inexperienced and often scarcely formed, and which consequently was apt to work at cross purposes. Municipalities have attempted to cope independently with their own currency problems, as when the town of Serajevo issued on the 18th September, 1919, 100,000 Kronen in municipal small change. Polish towns were permitted to raise taxes and grant monopolies; autonomous districts borrowed for long and short terms on their own account; and even the different Ministries of the Central Government have entered into contracts and commitments, often for the same purpose, without the knowledge of one another or of the Central Treasury concerned. The consequence is that in many cases a problem scarcely less important than the unification of the currency is the standardisation and centralisation of the fiscal system.

(iii) *Changes and conflicts of governments.*

5. In the more extreme cases this confusion and overlapping of obligations incurred is of itself sufficient to cause chaos. Where, as in Hungary, political convulsions have thrown up a succession of governments, each of which was repudiated by its successors, the network of priorities and liabilities is almost inextricable. The Government of Bela Kun, in 132 days achieved the following record of currency sabotage, as detailed in the 'New Europe':—

(1) They spent the note reserve of the Austro Hungarian Bank, amounting to nearly 2,000 million kronen.

(2) They printed 57 million kronen of 1 kr. and 2 kr. notes of the old design, which were repudiated by the Archduke, but allowed to circulate at face value for want of small change.

(3) They minted 11 million kronen of iron heller pieces.

(4) They issued 2,000 to 3,000 million kronen of 'white money'—new notes for 25 kr. and 200 kr., which were repudiated by the Archduke, but made exchangeable for 20 per cent. of blue money.

(5) They compelled the issue of 'blue money'—Austro-Hungarian notes of the old pattern for 25 and 200 kr. These were declared forgeries, and are identifiable by their serial numbers.

(6) They put into circulation 'green money' (5, 10 and 20 kr. notes) to an amount of 300 million kronen. These were later adopted by the Archduke and declared legal tender.

This achievement differs only in degree from what has been accomplished in other countries by authorities acting with all good-will, but without co-ordination or policy. It is scarcely too much to say that the whole of Central and South-Eastern Europe is trafficking with currencies which are either under sentence of death—about to be cancelled, withdrawn or repudiated—or so closely allied to other moribund currencies that they have had to be subjected time and again to processes of differentiation and distinction which, though intended to save, have in many cases only made confusion worse confounded.

(*iv*) *New States made responsible for obligations which they did not incur.*

6. Finally, the new countries and the invaded countries have all inherited a legacy of currency diffi-

culties resulting from the action of their former governors or invaders. The note circulation in Poland, for example, is estimated to amount to some 15 thousand million marks nominal value for a population of 36 millions. In this respect the position is analogous in its causes and effects, to that which exists all over Europe. But the fact that in these countries the responsibility for existing troubles lies to a great extent at the door of other nations towards whom they have no reason to feel good-will, provokes the newer States to take up an attitude which, while falling short of positive repudiation, amounts in the end to an unwillingness to accept responsibility or to face the discomforts entailed by any attempted cure. The result is to increase the prevailing uncertainty and to arouse the expectation of assistance from outside. The same applies to an even greater extent, to the obligations in the way of debt which were incurred as the price of freedom.

Exchanges.

Effects of (i) currency disorder; (ii) political regrouping; (iii) control; (iv) instability of Governments.

7. The foreign exchanges have in many cases almost completely broken down: that is to say, currencies have not merely depreciated in value, but have become almost unsaleable abroad, so that it has become practically impossible to arrange foreign credits by any method involving the sale of exchange. To some extent this is the natural and necessary result of currency disorder: a currency which is hardly acceptable internally must often become still more unsaleable abroad. But the foreign exchanges are affected by other influences than those which can strictly be called monetary or even financial. The formation of new political groups, for example, has led to the break up or reorientation of different banking systems. In the new countries, the various existing elements of a system have as yet to be welded into a self-contained whole;

and in the meantime the foreign exchanges suffer from this temporary disorganization of banking. The attempts which have been made by various Governments to overcome this difficulty, and at the same time to control imports and exports, by instituting a centralized control of foreign exchange transactions do not contribute anything to the ultimate solution of the problem. For however necessary such control may have been in order to avert a greater evil, it has had the effect of hampering both trade and the finance of trade, and can at best achieve nothing better than the maintenance of the *status quo*, by paralysing, not removing, the fundamental causes of collapse. Finally, the stability of foreign exchange is almost unattainable without stability of Government: and the present currency and exchange disorders are an effect, no less than a cause, of political and social unrest.

We are left with the dilemma that a currency reform is the necessary condition of any successful economic reconstruction, while at the same time any attempt at currency reform will break down unless political, social and economic conditions can be kept in a state of equilibrium.

CHAPTER II.

Belgium.

SUMMARY.

The currency of Belgium now consists, to all intents and purposes, of paper money. The precious metals have disappeared from circulation. This in itself results in on serious damage or inconvenience as the legal tender notes of the Banque Nationale, and even other notes which are not legal tender, are readily accepted by the public. But the great increase in the bank note circulation since the War, due largely to the policy of the German authorities during the occupation of the country, is generally admitted to be unsatisfactory and to be a contributory cause of the rise in prices. On the 23rd July, 1914, the note issue of the National Bank, which had the monopoly of note issues in Belgium, amounted to 130 fr. per head of the population against cover in gold of 26·8 per cent. On the 2nd October, 1919, the note circulation of the National Bank alone was sufficient to provide every inhabitant of Belgium with more than 625 fr. and the cover in gold was only 5·6 per cent. of the face value of the notes. More than 6 milliards of marks had been withdrawn from circulation and were held in the vaults of the National Bank, having been paid for at the forced rate of 1 fr. 25 c. to the mark imposed by the Germans in time of War.

From particulars published in the "Revue du Travail," it would appear that in April, 1919, articles of primary necessity showed an increase of 211 per cent. over prices obtaining in April, 1914. The increase for clothing,

footwear and light was then 283 per cent. and for articles in less common demand 355 per cent.

In exchange Belgian francs on the 23rd December, 1919, were worth in dollars 50 per cent. of their par value. Fluctuations in exchange have been violent and continuous. A change in value of 1 per cent. in a single day has not been uncommon. On the 26th September quotations varied as much as 3 per cent. of the New York parity.

Separate reasons are required to account for the low level of the Belgian franc in exchange and for the rapid and erratic fluctuations. The discount on francs by itself is less surprising and perhaps also less damaging than the great instability in value. For the first it is sufficient to refer to the necessarily adverse balance of trade in a country denuded of raw materials and temporarily mutilated in its powers of production. For some time to come Belgium will need to import four or five times as much as she can have available for export; yet rapid strides towards recovery have already been made, the output of coal, for example, in October, 1919, being about 99 per cent. of the monthly average for 1913. It should be remembered that Belgium is in the unique position among European belligerents of having no debt in respect of her military operations. But the pre-War National Debt of rather less than 5 milliards of francs has had to be increased by 10 milliards as a result of the enemy occupation and by a further 5 milliards for the needs of the Budget.

The instability of exchange quotations is due to the absence of any decisive check in one direction or the other, owing to the limitations imposed in Europe on the use of gold. Attempts to control exchange indirectly by controlling imports, or directly by limiting the amount of exchange available, have not been successful because the crying need for foreign goods is paramount, and the financial and commercial disorganisation resulting from the freedom of exchange dealings has been held to be the lesser evil.

1. The Currency and Banking System before the War.

(*a*) *Currency.*—The currency actually in use in Belgium before the War consisted mainly of bank notes (chiefly for 20 fr.) and small token coins. The notes were all issued by the National Bank of Belgium, a private bank with the monopoly of note issue. Gold coins were very rare: the use of cheques was still confined to commercial and industrial circles.

On 31st December, 1913, the note circulation of the National Bank amounted to 1,067,407,000 fr.; metallic cover to 305,392,000 fr.; foreign bills to 166,624,000 fr.

The National Bank was bound by law to hold cash in hand (including foreign bills) equivalent to one-third of the amount of its note issue plus other sight obligations.

Belgium was a signatory of the Latin Monetary Convention, and coins struck by the other signatories—viz., France, Switzerland, Italy and Greece—were able to circulate in the country, if necessary. For the minting of new subsidiary coinage only old Belgian 5-fr. pieces were used by the Belgian Government, and no new 5-fr. pieces were coined. This limitation resulted in fact, if not in name, in the acceptance of a gold standard.

(*b*) *Banking.*—The banking system is built round the National Bank, which acts as the bankers' bank of discount, and transacts nothing but purely banking business. Other banks are difficult to classify: the Société Générale de Belgique is the oldest bank in the country, and used to be supreme in commercial banking. It still covers the country with a network of branches, and successfully undertook the work of note issue during the German occupation of the country. Antwerp banks specialise in oversea trade, as do the Banque d'Outremer and the Banque Belge pour l'Etranger. As in other countries, the tendency in recent years has been for banks to co-ordinate—if not to amalgamate—their undertakings and Belgium can now be said to have an organised banking *system*. A semi-official institution—the Caisse Générale d'Epargne et de Retraite—

provides a savings bank for the people without being limited—like the Post Office in other countries—to investment in Government funds.

Land banks and mortgage banks have reached an advanced stage of development and certain foreign banks—*e.g.*, the Crédit Lyonnais, the Société Française de Banques et de Dépôts, the Comptoir National d'Escompte de Paris and the Deutsche Bank—were firmly established in Belgium before the War.

2. The Use made of Currency and Banking Credit to Finance the Government during the War and its Effects on the Currency Position.

During the War the Government was financed by the Allies. The Belgian War debt to the Allies has now been transferred by the Treaty of Peace to Germany, and war finance has consequently not affected the credit position of the Government.

Currency issues were used by the Germans to finance their exactions during the occupation of the country, and the result is a high degree of inflation with consequent high prices.

The present need for credit in industry has been met, to some extent, by the creation of a Société Nationale pour le Crédit à l'Industrie, fathered by the Banque Nationale and controlled by the Government. It has a capital of 25 million fr., and the State guarantees its liabilities up to 250 million fr. The necessities of reconstruction have compelled the extension of the credit system in this and similar ways, even though the rehabilitation of the currency is thereby still further postponed.

3. Statistics.

—	2.7.14.	3.7.19.
	Francs.	Francs.
(*a*) Gold holdings of the National Bank	260,359,000	266,041,000
Silver and copper ditto	77,586,000	28,290,000
(*b*) Notes in circulation	985,783,000	4,696,202,000

The figure given for the note circulation on 3rd July, 1919, must be accepted with reserve, as the position is complicated by the number of special note issues made during the War. These special issues included :—

(i) Communal notes, which by August, 1915, amounted to 57 million fr., issued by 320 different communes. These were all redeemed early in the War, except in the immediate neighbourhood of the front.

(ii) Notes issued by the Société Générale de Belgique, which during the German occupation had a monopoly of note issue. A special issue department was constituted at the Société Générale to control this issue. The department was transferred to the Banque Nationale on the morrow of the Armistice.

(iii) German mark notes current during the War at the forced rate of 1 fr. 25 c. and since redeemed at that rate by notes of the Banque Nationale and by the issue, at the end of 1918, of 5 per cent. bonds 'de la Restauration Monetaire.' The Belgian Government holds over 6 milliards of marks in this form, although some 1,200 million marks in notes were at different times seized by the Germans in Belgium and sent back to Germany.*

(*c*) *Gold and Silver coin in the hands of the public* cannot be estimated. The unfavourable exchange tended before the War to drain the metal coinage from Belgium into France.

(*d*) *Bank Deposits.*—In the absence of official statistics, the best indication of the total bank deposits in Belgium was the statement published annually by the "Moniteur des Interêts Materiels." The statement for 31st December, 1913, shows obligations amounting to 3,008,880,000 fr. : of which 673,922,000 fr. are repayable at a fixed date and 2,334,958 fr. are repayable on demand. For the 14 principal banks, excluding the Banque Nationale, the Caisse de Reports in its Annual

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* A special agreement for the repayment of these marks has been concluded between the Belgian and German Governments.

Statement gives the following comparison of deposits :—

End of—	Francs.
1913	1,510,455,000
1918	3,338,436,000

(e) *Exchange Rates.*—

—	Par.	30.6.14.	30.6.19.	19.12.19.
New York cheque ...	5·18	[5·18⅝]	6·75	10·55
London cheque ...	25·22	25·35½	30·92½	40·60

New York was not dealt in before the War, and the quotation for 30.6.14 is therefore arrived at indirectly.

4. The System of Currency and Banking at Present in Operation.

(a) *Permanent Alterations in the Pre-War System.*—The chief alterations in the currency brought about by the War are the disappearance of metal from circulation, and the issue of notes for 5 fr., of which 40 million fr. had been printed in 1912 and held ready for an emergency.

(b) *The Convertibility and Acceptability of Currency and Bank Notes.*—Bank notes of the National Bank (and, for the time being, of the Société Générale) are legal tender to any amount, and are readily accepted. Small notes issued by the Bank of France also circulate, but are not legal tender.

(c) and (d) *Official Control and Support of Foreign Exchanges.*—The Comité des Changes, established and supported by the Government, exercises a general supervision over the exchange market in co-operation with the National Bank, but its activities do not amount to a strict official control or support of the Exchanges.

The intention was that banks should furnish monthly statements to the National Bank showing the precise nature of all foreign transactions. It was thought that by this means the banks would be encouraged to require proof from their clients that every transaction in exchange was required for purely commercial purposes. The system did not work satisfactorily, and the regulations have now been officially withdrawn.*

(*e*) *Forms of Currency in Actual Use.*—Paper, which is the only currency that actually circulates, is accepted, but has depreciated in relation to gold. A gold coin for 20 fr. would fetch several times its nominal value over Amsterdam. Silver coins of 5 fr. were of a standard fineness of 900/1000, those of 2 fr., 1 fr. and 50 c. were 835/1000 fine. The current price of silver gives them an intrinsic value in London greater than their nominal equivalent in exchange.

(*f*) *Hoarding.*—Coin, and even notes, are known to be hoarded in individual cases, but no estimate can be given of the amount.

(*g*) *Barter.*—The currency being acceptable, trade is not conducted by barter within the country. The necessity of barter in foreign trade does not appear to have arisen.

(*h*) *Pending Currency Changes.*—No currency changes are known to be pending. The notes of the Société Générale are being replaced by those of the National Bank, whose notes should shortly be the only ones to circulate, as before the War.

5. Factors Affecting the Exchange Position.

(*a*) *Balance of Trade.*—The special foreign trade of Belgium in 1919 amounted to :—

	Million francs.
Imports	5,075
Exports	2,297
Excess of imports	2,778

* Since this was written new regulations against speculation in exchange have been introduced.

(*b*) *Foreign Indebtedness.*—The foreign indebtedness incurred by Belgium since the Armistice stood on 31st August, 1919, at 1,305 million fr.

(*c*) *Inflation.*—The depreciation of the currency by inflation is indicated by the rise in the general level of prices and by the relation between Belgian francs and their gold parity, as expressed in dollars. Index numbers are not published; but the Belgian franc has depreciated to less than 40 per cent. of its par value in New York (January 20, 1920).

(*d*) *and* (*e*) *Uncertainty as to Financial and Political Position.*—Uncertainty as to the financial position and the political stability of the country do not exercise any appreciable effect on the exchanges.

The exchanges are adverse on account of currency inflation and because the country depends to a great extent upon foreign supplies of raw materials (excepting coal), provisions and machinery, and is not at present in a position to pay for these supplies by means of exports. The wave of idleness which was, for a time, as prevalent in Belgium as elsewhere, had come to an end by the beginning of September, 1919.

CHAPTER III.

Denmark.

SUMMARY.

The basis of Danish currency is a gold standard. The currency actually in use within the country is, however, almost exclusively composed of notes and subsidiary coins. All Danish currency is readily accepted in Denmark, and circulates at its face value there. The amount of notes outstanding in the autumn of 1919 was more than double what it was in 1914, and the general level of commodity prices had risen about 110 per cent. since the outbreak of war. The foreign exchange position is unfavourable to Danish currency. Danish kroner are at a discount not only in London and New York, but also in Scandinavian and Dutch markets among others. The decline in their value since the Armistice is attributed mainly to heavy purchases abroad with the object of replenishing exhausted stocks. In 1914 Denmark owed some 1,000 million kr. to foreign countries; at the close of 1918 this debt had been converted into a credit balance estimated at about 850 million kr. Since the Armistice a considerable part of these foreign credits has been used to pay for the excess of imports over exports. Several changes of some importance in currency and banking law were made during the War, but in all essential points the system remains much the same as it was before the War. No currency reform appears to be considered necessary.

1. THE CURRENCY AND BANKING SYSTEM BEFORE THE WAR.

At the close of the financial year 1913 there were some 140 Banks in Denmark with deposits amounting to

about 900 million kr. Most of the Danish Banks were small and local. The four large Banks of Copenhagen were the Nationalbanken, Privatbanken, Landmannsbanken and Handelsbanken. These Banks are Joint Stock Companies with branches in the largest provincial towns, though there were only 23 country branches in Denmark altogether. Many provincial Banks were related to these four great Banks in a manner analogous to that of a branch. The Nationalbanken had five branches in the country and a branch establishment in Flensborg (Germany). No clearing-house system existed in Denmark, and the employment of Banks in the settlement of accounts was not developed. But the Banks played none the less a prominent part in developing the trade of the country.

By Charter dated the 4th July, 1818, the Nationalbanken was granted the monopoly of note issue free of compensation. An Act dated the 12th July, 1907, modified the Charter, and the Bank was required to pay to the Exchequer an annual fee of 750,000 kr., and in addition 25 per cent. of the annual surplus remaining after the payment of a dividend of 6 per cent. to shareholders. The Bank is subject to the supervision of a Royal Commissioner, and the State appoints two out of the Bank's five directors.

There was no absolute limit to the amount of notes that may be issued by the Bank; but a bullion reserve of 50 per cent. of their face value had to be maintained. The remaining 50 per cent. of notes were covered by liquid assets for 125 per cent. of their value. The following might be included in the bullion reserve :—

(i) Legally current coin at face value.

(ii) Gold in bars or ingots and foreign gold coin at the rate of 2,480 kr. per kilogramme of fine gold.

(iii) Non-interest bearing credit balances payable on demand at the Banks of Norway, Sweden and the German Reichsbank.

Of these different constituent elements the first must amount to at least 25 per cent. of the whole stipulated

bullion reserve, and the first and second together to not less than 60 per cent.

The notes of the Bank were convertible into gold, and the Bank was required to buy gold at a fixed price of 2,480 kr. per kilogramme fine, less ¼ per cent. for the cost of coining.

A giro system between the Banks of issue in Norway, Sweden and Denmark existed by which gold shipments could often be avoided and a par exchange maintained between the three countries under normal conditions. The Nationalbanken participated in settling the foreign exchange rates, fixed the official discount rate and managed a Currency Exchange Office for the State.

The other three large Banks transacted a general banking business on the Continental pattern: in conjunction with the Norwegian and Swedish Banks they had established a Bank in London and in Paris, and the four Banks were interested in the Danish West-Indian National Bank at St. Thomas, which, like the two Banks in Iceland, had the right of note issue.

The provincial Banks had formed an 'Association of Provincial Banks,' and by their intimate connection with Copenhagen had established a strong banking concentration in Denmark.

No gold circulated in Denmark before the War and only about 25 million kr. of silver and small coin. Banknotes were universally used, the smallest denomination being 5 kr.

2. The Use Made of Currency and Banking Credit to Finance the Government during the War and its Effects on the Currency Position.

The aggregate proceeds of taxes and excise in the financial year 1913–14 amounted to 102 million kr. For the financial year 1918–19 they reached 402 million kr.

Six loans were raised by the Danish Government during the War, aggregating 515 million kr., mostly issued at or near par for 10–15 years with interest at 5 per cent. per annum.

By an Act dated the 2nd August, 1914, the Treasury was authorised to issue 5 per cent. Exchequer Bonds with a currency of one year. These Bonds were to be accepted by all Crown Offices in payment at their full face value: 5 million kr. were issued on the 1st October, 1914, 5 million kr. on the 1st November, 1914, and 15 million kr. on the 3rd April, 1916.

The remainder of the special expenditure due to the War has been met by Bank loans. Temporary loans were granted to the Government by the Nationalbanken by opening a 'Folio' account for the Treasury, which has at times been heavily overdrawn.

The debit balance of the Government with the Nationalbanken at the close of each financial year (31st July) was as follows:—

	Million Kr.
1914–15	20·2
1915–16	16·1
1916–17	2·2
1917–18	43·6
1918–19	82·0

Further, the holding of the principal Copenhagen Banks in Government loans issued during the War amounted on the 31st July, 1919, to 32·6 million kr.

The entire National Debt of Denmark has grown from 360 million kr. on the 31st March, 1914, to 780 million kr. on the 31st March, 1919. To this total should be added the so-called 'Genforeningslaan' (Re-union Loan), amounting to 145 million kr., which is for the arrangement of financial questions connected with the Re-union of Slesvig.

3. Statistics.

(*a*) *Gold and Silver Holdings.*—Bullion reserve of the Nationalbanken (gold and silver):—

—	Gold.	Silver.
	Million kr.	
30th June, 1914	76·6	5·8
30th June, 1919	187·8	2·6

(*b*) Notes in circulation :—

	Million Kr.
30th June, 1914	159·8
30th June, 1919	436·0

Foreign notes are not in circulation.

(*c*) Estimate of the amount of gold and silver coin in hands of the public :—

—	30.6.14.	30.6.19.
	Million kr.	
Gold in circulation	practically nil.	
Silver in circulation	25	10

From the 1st April, 1873, when the present currency was established, to the 31st March, 1919, gold has been coined to an amount of 149·2 million kr., of which only an insignificant part has been melted down by the Mint. Silver coined in the same period amounted to 34·8 million kr., of which 1·8 million kr. have been remelted.

On the 31st July, 1919, the Nationalbank held 72·6 million kr. in gold coin and 28 million kr. in silver coin, out of a total bullion reserve of 190·2 million kr.

The amount of coin exported is not known, and for this reason, if for no other, the published figures are of little value for forming an estimate of the actual circulation. Little silver has been exported, but an unknown quantity has been privately melted, as the 12 grammes of pure silver contained in a 2-kr. piece, both now and at various periods during the War, have had a higher value than 2 kr. In practice silver coins for 1 kr. and 2 kr. are hardly ever seen.

(*d*) Bank deposits :—

—	31st March, 1914.	31st March, 1919.
	Million kr.	
Banks	906·0	3,545·0
Savings banks	858·0	1,454·5
	1,764·0	4,999·5

(e) Exchange rates :—

—	Par.	30.6.14.	30.6.19.	19.12.19.
New York	373·00	375·50	424·50	456·2
London	18·16	18·27	19·53	20·58

4. The System of Currency and Banking at present in Operation.

(a) *Permanent Alterations in the pre-War System.*—At the end of the financial year 1918–19 there were 154 Danish Banks all told, with deposits amounting to 3,500 million kr. The four great Banks at that time showed :—

—	Share Capital.	Reserves.	Total Deposits.
	Million kr.	Million kr.	Million kr.
Nationalbanken	27	20·1	204·0
Privatbanken	45	11·3	475·6
Landmannsbanken	100	27·1	971·5
Handelsbanken	40	17·0	517·9

The following special War measures had been taken :—

(1) The withdrawal of deposits in Banks and Savings Banks was prohibited.

(2) The convertibility of notes was suspended.

(3) The Nationalbanken was, at a later date, relieved of the necessity of buying gold at a fixed price.

(4) On the 15th August, 1916, the Act of the 12th June, 1907, was amended so as to permit of the issue of Nationalbanken notes in denominations of less than 5 kr. The Bank, empowered to issue 1-kr. and 2-kr. notes, actually only issued 1-kr. notes, of which the amount in circulation on the 31st July, 1919, was 14 million kr.

Most of the above provisions were purely temporary. But by an Act of the 30th August, 1919, the Charter of the Nationalbanken was permanently modified by the codification of various War-time alterations of the conditions governing the note reserve. By this Act the cover for the note issue of the Nationalbanken must consist of bullion to the extent of one-third (instead of one-half) of the face value of the notes. Of this bullion reserve an amount equal to $12\frac{1}{2}$ per cent. of the total face value of the notes in circulation must consist of legal tender coin, and an amount equal to not less than 30 per cent. of the total of notes must be in gold coin or bars. Notes not covered by bullion must be backed by liquid assets, in which may be included :—

(i) Debts to the Bank secured on gold.

(ii) Credit balances with the Central Banks of Norway and Sweden, or with any other foreign Banks or Bankers that may be approved by the Royal Commissioner of Banks.

The balances with foreign banks other than the Central Banks of Norway and Sweden may not, however, amount to more than 15 per cent. of the amount of notes in circulation. All these liquid assets must be held to an amount equal to 122 per cent. of the face value of the notes they cover. By Royal Letter and for a period of not more than two years dispensation may be granted from the above rules concerning the circulation reserves, but only so far as the circulating amount of notes and the reserve of legal tender gold coin are concerned.

If the monthly balance sheet of the bank should prove that the amount of notes in circulation exceeds double the amount of the bullion reserve plus the credit balances of the bank with the Norges Bank, the Sveriges Riksbank and other foreign banks, the bank is bound to pay to the Exchequer a special duty, which corresponds to a monthly interest on the excess at the close of the month, computed at a rate which for the first month is $1\frac{1}{3}$ per cent. and for the following months 1 per cent.

below the average rate of discount of the bank for the month in question. In this connection it should further be stated that by Act dated the 4th October, 1919, special rules have, for the first time in the history of Denmark, been laid down for the carrying on of banking. According to these rules no bank can be established with a capital amounting to less than 200,000 kr., of which 25 per cent. must be paid up before the bank can start business, and the remainder must be paid in the course of the first three years after its establishment. This Act further contains detailed rules concerning reserves, the proportion of cover, the rendering of accounts, &c., and subjects all private banks to the supervision of a Government Banking Inspector.

By another Act of the same date, the Act of 1880 governing the operations of savings banks has been amended. According to the Act of 1919 the object of the savings banks is to receive money on deposit against interest and to invest the amounts deposited securely, while the savings banks are not allowed to carry on banking business with the exception of such discounting of bills of exchange as has been carried on before the 1st April, 1919. Further, the Act contains provisions corresponding to those of the Bank Act, control being exercised by an inspector appointed by the Government.

(*b*) *The Convertibility and Acceptability of Currency and Bank Notes.*—On the 2nd August, 1914, the convertibility of notes by the Nationalbanken was left to the discretion of the bank instead of being obligatory. This exemption expired on the 30th April, 1917, and, indeed, the bank had already started once more to redeem its notes in March, 1916. The notes are now legally redeemable, but the export of gold is prohibited. The banks, therefore, refuse to give gold for notes if they think that the gold is required for export. Notes are legal tender and in practice are not converted, or only very exceptionally.

Owing to the low rates given for foreign currencies—especially the dollar—gold could at one time be bought in Denmark for less than the price at which the bank

was bound by its Charter to accept gold. By an Act dated the 8th February, 1916, the Bank of Sweden, then in a similar position, was relieved of the obligation to buy gold at a fixed price. The same was done for the Nationalbanken in Denmark by an Act dated the 17th April, 1916, which Act also suspended, as from the 1st May, 1916, the free coinage of gold. These provisions are still in force.

Notes have never been at a discount on gold within Denmark, and they are always readily accepted.

(*c*) *Official Control of Foreign Exchanges.*—Immediately after the outbreak of War the Minister of Finance consulted with the banks as to the possible necessity of providing foreign exchange for the purchase of grain &c., in America, but no official action proved to be necessary.

In August, 1917, the Danish Banks agreed among themselves not to buy foreign currency in Sweden and Norway, and not to sell Swedish or Norwegian currency to foreign buyers. The object of the agreement was to abolish the discount on Danish notes in Sweden, which usually fluctuated round 10 per cent., and occasionally touched nearly 20 per cent. But the policy proved ineffective, and no further attempts at regulation were made.

(*d*) *Official Support of Foreign Exchanges.*—No support has been given to foreign exchanges.

(*e*) *Forms of Currency in actual Use.*—Notes of the Nationalbanken, silver and small coins, are the only circulating media in Denmark. The coinage consists of :—

Gold ..	20-kr. and 10-kr. pieces.
Silver ..	2-kr., 1-kr., 25-öre and 10-öre pieces.
Copper or iron	5-öre, 2-öre and 1-öre pieces.

Notes are issued in denominations of 500, 100, 50, 10, 5 and 1 kr.

All are accepted and interchanged at their full face value. Foreign coins do not circulate, except some small change of Norway and Sweden, the other signatories of

the Scandinavian Monetary Union. Norwegian and Swedish coins are accepted, if they are presented, at their face value; Norwegian and Swedish notes are at a premium, but are not used as a circulating medium.

(*f*) *Hoarding.*—There is not thought to be any appreciable amount of hoarding now.

(*g*) *Barter.*—There is no barter in inland trade. Import trade is generally done for cash through the banks. The export trade makes use of both credit and barter. During the War, when the exchange of the Western Powers had depreciated considerably, payment —*e.g.*, for freights—was often demanded in Danish kroner. The same demand is now frequently made of the Baltic Provinces and Central Europe.

(*h*) *Pending Currency Changes.*—The rise in the price of silver has led to the suggestion that the proportion of silver in 2 and 1-kr. pieces should be reduced, and that small change should be issued in nickel. No action has yet been taken.

5. Factors affecting the Exchange Position.

(*a*) *Balance of Trade.*—The method of compiling commercial statistics was changed from the 1st January, 1919, and comparison of the new monthly returns with pre-War figures is not strictly possible. The old returns show:—

—	Special Trade. Imports.	Special Trade. Exports.	Gross Earnings of Shipping.
	Million kr.	Million kr.	Million kr.
1914	718	780	99
1915	1,029	979	227
1916	1,250	1,177	373
1917	1,017	968	398

For the first nine months of 1919 the returns are: Imports, 1,699 million kr.; exports, 468 million kr. In 1918 imports were reduced to a minimum and the export of high-priced agricultural products was in part maintained. The trade balance, therefore, improved. But from the beginning of 1919 a complete reversal took place and the surplus of imports for the present year has affected the sterling rate, which stood at 17½ kr. about the 1st November, 1918, and reached 21½ kr. to the £ sterling on the 13th December, 1919.

(*b*) *Foreign Indebtedness.*—The net amount of Denmark's foreign debt before the War is estimated to have been about 1,000 million kr. At the close of 1918 this had been converted into a credit balance estimated at about 850 million kr. On the 31st July, 1919, this amount had been reduced to perhaps 580 million kr., so that a large part of the accumulated balance had been used to cover the surplus of imports.

(*c*) *Inflation.*—In June, 1914, the circulation of Nationalbanken notes was 55·9 kr. per head of the population. In June, 1919, it amounted to 144·2 kr. per head. In July, 1919, the rise in the general level of prices in Denmark since 1914 was officially computed at 111 per cent. for all the articles included in the normal budget of a labouring man at Copenhagen. Footwear and clothing had risen 210 per cent., rents 38 per cent., fuel and light 192 per cent. The purchasing power of the krone may be said to be less than half of what it was before the War. Opinions differ as to how far this advance in the general level of prices is a cause or an effect of the premium on sterling and dollars in exchange. The tendency in Denmark is not to ascribe high prices to inflation of the note issue.

(*d*) *Uncertainty as to Financial Position.*—The greater part of the annual deficits on the national budget has been covered from year to year by energetic tax legislation. The National Debt has been doubled, but even a National Debt of 1 million kr. is not alarming in a country with a population of 3 millions, which is mainly engaged in agriculture, and has been spared the destruc-

tions of War. The stock of cattle may be expected soon to be as large as in 1915. The mercantile marine at the close of 1918 had an aggregate registered tonnage of 470,989 as against 540,944 at the close of 1913. The industrial life of the country has been consolidated and no fears are entertained as to its financial stability.

(*e*) *Uncertainty as to Political Conditions.*—The high cost of living has given rise to many stoppages of work, but there have been no disturbances. The people have been well fed, and social and political conditions may be considered relatively stable.

6. The Effect of Depreciated and Fluctuating Exchanges upon International Trade.

The subject of depreciated exchanges is touched upon in the reports of the National Bank and in the trade reports issued by the Merchants' Guild for the year 1918. The general opinion is that the rise in the rates for sterling and dollars is due to the necessity of replenishing stocks, and in general making up lost ground by the import of commodities which was restricted during the blockade. The National Bank regards speculation in foreign exchange as having, at worst, only a temporary effect on fluctuations, and as being in the long run unable to alter the fundamental conditions. Loans or credit balances abroad afford only a temporary relief; but they may enable the country to tide over the period of exceptional demand until debts can be discharged, as eventually they must be, by goods or their equivalent. The discount on Danish kroner in England and America is troublesome, but it is not thought to be of vital importance to the economic life of the country.

7. Proposals for Currency Reform and Improvement of the Exchange Position.

No reorganisation appears to be considered necessary. The 'Finanstidende' has proposed that the Scandinavian Monetary Union be extended, when circumstances permit, to the other Baltic countries.

CHAPTER IV.

France.

1.—Pre-war Situation.

The essential characteristics of the French currency system before the war were as follows:—

The monetary standard was gold; but the silver 5 franc piece was also legal tender to any amount. France belonged to the Latin Union, and the subsidiary silver coins of Belgium and Switzerland had, from the legal point of view, the same value as French small change. Gold was coined free of charge.

Fiduciary paper currency consisted exclusively of notes issued by the Bank of France for amounts varying between 50 and 1,000 francs. These notes were repayable on demand in gold or 5 franc pieces.

The banking system of France was adapted to the special requirements both of the French investor and of French industry and commerce.

In France capital is not in the hands of the few alone; it is distributed amongst a very large number of people belonging to every social class. French investors, whose fortunes are often small, are peculiarly prudent in business; they do not like running risks and generally prefer securities which yield a fixed and certain income to speculative stocks.

The Banks are divided according to the character of their operations into commercial banks and banks of discount and deposit. The discount and deposit banks are few in number. Apart from banks whose deposits before the war totalled less than 10 million francs, there were in 1914 twelve credit institutions with an aggregate paid-up capital of 1,400 million francs and deposits amounting to 5,084 millions. The paid-up capital of four of these totalled 800,000,000 francs and their deposits 4 milliards. They had founded numerous

branches throughout France. These credit institutions receive deposits generally repayable at sight and offer to the public the investment securities which it requires. They have thus a great influence over their clients who often know little about financial matters.

The sums thus deposited are used by the Banks for granting short-term loans, usually by discounting commercial bills. But in order to keep their capital sufficiently liquid these Banks must have the power to re-discount their portfolio with some great central institution. This need is met by the Bank of France. It alone has the right to issue Notes; but the total face value of these notes must not exceed a sum fixed by Parliament. This limit before the war was 6,800 million francs.

These Notes are guaranteed :—

(*a*) By the Bank's reserve of gold and silver 5-franc pieces; this reserve in July, 1914, covered 75 per cent. of the notes in circulation;

(*b*) By securities of the Government, of the large railway companies, and of towns and departments and by obligations of the Credit Foncier de France, which together represented 12·5 per cent. of the notes issued;

(*c*) By commercial bills drawn by French merchants or manufacturers, bearing three signatures and having a maximum currency of three months; before the war the average term of maturity of such bills was 27 days and their average value 660 francs.

A very great number of bills are re-discounted at the Bank of France. The Bank fixes the rate of discount and plays a predominant part in regulating the money market. The importance of this function may be judged from the fact that the rate of discount in France between 1898 and 1913 was only changed 14 times, whereas during the same period it changed 79 times in England and 62 times in Germany.

The export of gold was free and paper money had the same value as gold. When the export of gold

became excessive the Bank of France raised the rate of discount and restored the unfavourable balance by attracting foreign capital and checking the flow of exports.

Unlike many note issuing banks, the Bank of France is not a State institution. It is completely independent of the State and is administered apart from the State. Every agreement and every contract with the Government must be approved by the Directorate of the Bank and be embodied in a law, but the Bank fulfils without charge the functions of a State Treasury and pays to the State a proportion of its profits. Before the war a fixed amount of 200,000,000 francs was lent by the Bank to the State.

2.—Financial and Banking Policy of the Government during the War.

Measures taken and their Effect on the Present Situation.

The effects of the war on the financial and banking situation of France may be examined from three different points of view:—

(i) Measures intended to ensure the safe transition from pre-war to war conditions;

(ii) Measures intended to meet the exceptional needs of the country during the war;

(iii) Measures intended to safeguard the economic life of the country during the war.

(i) The measures intended to ensure the safe transition from pre-war financial and banking conditions to the state of war thrust on the country so suddenly on August 1st, 1914, took in France the form of a moratorium for debts. The moratorium for bank deposits came to an end on January 1st, 1915; that for negotiable instruments ended with the cessation of hostilities. The rent moratorium was regulated by the law of March 9th, 1918, which exempts numerous tenants from payment of their rents and charges the State with a part of the rents unpaid.

The settlement of Stock Exchange transactions outstanding on July 31st, 1914, was effected in 1918 without excessive difficulty. In order to place the banks in a position to repay their depositors by the end of 1914 it proved necessary to enable them rediscount almost all their commercial paper with the Bank of France. The Bank of France in order to fulfil this function had to increase its issue of notes, but this expansion of currency for commercial requirements would have been limited to the amount of commercial discounts if the needs of the State had not compelled the Bank to make very rapid and large increases in its advances to the Treasury. The result was the introduction of the "forced circulation" of Bank of France notes.

(ii) The needs of the French Treasury during the War were considerable. The French Parliament voted credits for 209½ milliards of francs between August 1st, 1914, and the end of 1919.

Expenditure had to be met both in France and abroad.

For payment in France the Treasury had at its disposal :—

(*a*) Revenue from taxation, which amounted to 16% of the expenditure of 32 milliards. The fresh sources of revenue which were made available during the War represent a 75% increase over the 1913 Budget. Revenue from taxation totalled 11 milliards in 1919 as against 4·8 milliards in 1914—and it must not be forgotten that ten of the richest departments in France were devastated and are not yet capable of paying.

(*b*) The proceeds of short-dated loans amounting to 50 milliards and covering 25·5% of the total expenditure, and the proceeds of long-dated loans for a total of 53½ milliards or 27% of the total expenditure.

(*c*) Advances from the Bank of France and the Bank of Algeria amounting to 25·7 milliards or 13% of the total expenditure,

Funds obtained from abroad comprised :—

Loans made by various allied or neutral countries for 35·4 milliards or 18% of the total expenditure.

In spite of the constantly increasing advances by the Bank of France to the French Treasury and the corresponding expansion in the circulation of paper money, the French Exchange did not depreciate greatly up to February, 1919. From May, 1917, the rate of the franc in New York and London was stabilised at a discount of from 8 to 10%. This discount actually fell to 3% between November, 1918, and February, 1919. This was due (*a*) to the very extensive credits obtained abroad from 1915 onwards ; (*b*) to the policy of regulating private purchases abroad and controlling the export of capital.

(iii) Both agriculture and industry were profoundly disturbed by the war. Owing to the withdrawal of agricultural labour, the land no longer produced the food essential to a population whose needs had actually grown greater during the war.

Factories, reduced in number since many were in the hands of Germany or under the fire of her guns, were devoted almost exclusively to the manufacture of war material.

France was obliged to purchase outside the country everything that she could no longer produce herself. But freights were high, competition in foreign markets was keen and available means of payment were limited.

The French Government therefore decided :—

(*a*) To centralise all its purchases abroad and combine the importers of the various commodities into consortia.

(*b*) To control all payments abroad, by authorising them only after evidence of their necessity had been produced and sometimes by itself acting as intermediary for the provision of the means of payment.

3.—Statistics.

	Francs (000,000's omitted). June 30th, 1914.		January 15th, 1920.
(*a*) Gold in the Bank of France ...	4,057.7	...	5,579.9*
Silver „ „ „ ...	638.9	...	256.4
(*b*) Notes in circulation	6,051.2	...	37,679.4
(*c*) Gold in the hands of the public	5,000	...	2,500
Silver „ „ „ „	1,500	...	2,000
(*d*) Bank deposits, including those of the Bank of France	7,000	...	12,950.4†

(c) Theoretical parity of exchange on New York, 5.18¼ francs = $1.
Theoretical parity of exchange on London, 25.221 francs = £1.
Rate of exchange of sight drafts on New York on June 30th, 1914‡, 5.17 francs.
Rate of exchange of sight drafts on June 30th, 1919, 6.48 francs.
Rate of exchange of sight drafts on London on June 30th, 1914‡, 25.23 francs.
Rate of exchange of sight drafts on June 30th, 1919, 29.84 francs.

4.—The Banking and Currency System now in Force.

The present system is characterised by both credit and currency inflation.

All Governments were obliged, in order to meet the great demands occasioned by the war, to borrow from the Banks of Issue. But the consequences have not been the same in the different countries.

In some countries, every credit opened to the Government was soon distributed amongst the various deposit banks, and the deposits increased continuously in proportion to the borrowings made by the Government from the Central Bank.

In France, on the other hand, bank deposits, including those of the Bank of France, increased by only 70% between August 1st, 1914, and the end of 1918, but the aid lent by the Bank of France to the French Treasury created great inflation of fiduciary issues.

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* Including 1,978.3 abroad.
† On June 30th, 1919.
‡ Paris does not give quotations for telegraphic transfer.

The circulation of Bank of France notes reached 37,275 million francs on December 26th, 1919, an increase of over 31,500 million francs since the beginning of the war.

The depreciation caused by the abundance of circulating media is sufficient to explain the increase of deposits in French banks mentioned above. In intrinsic value these deposits have certainly not increased.

(a) *Permanent Alterations of the Pre-War System.*

No legal change has been made in the currency system. But the currency inflation and the depreciation of paper money in terms of gold make it impossible to foresee at what moment the forced circulation of notes can be abandoned.

The present price of gold metal in the world market shows such a difference between the intrinsic and the legal face values of metal currency that some financial experts have been led to wonder whether, in order to put an end to the forced circulation of paper money, it may not be necessary to consolidate in part the depreciation of this money in terms of gold, and to modify the value of the gold standard.

No important change is to be noted in the banking system.

The phenomenon of the decrease in the number of banks and the merging of several establishments into one, so noticeable in Germany, England and Italy, has not been observed in France, where before the war banking affairs were in the hands of a small number of banks.

The concentration of industrial enterprises brought about by the desire to intensify production during the war has, however, resulted in closer relations between the banks and industry. In certain countries the industrial organisations have acquired complete control of the banking establishments, and have thus ensured for themselves a place in the financial market in keeping with their development.

Although during the war the French Government, which had to make large demands for credit on both home and foreign markets, was thus led by circumstances to take an active part in banking organisation, it is now trying to substitute for itself organisations intended to free the financial market, whenever possible, from direct Governmental interference, and to facilitate the resort to credit in cases of special need.

Thus, there has been created a special institution of National Credit to facilitate the reparation of damage caused by the war.

It is difficult for the moment to foresee whether the various changes made during the war will become permanent. On the other hand, it is impossible to tell at present what alterations may be made either by custom or by law, to bring the French currency and banking systems into harmony with the new state of things created by the war.

(*b and f*) *Convertibility of Currency—Hoarding.*

The enforced circulation and the abundance of fiduciary money in France have caused no considerable change in the method of settling accounts or the habits of the public and business men generally.

The number of settlements by transfers and by cheques has not greatly increased.

The abundance of circulating media has resulted in an increase of (1) the amount of deposits in the banks (but, as has been explained above, this increase, though it reflects the fiduciary inflation, does not denote bank inflation), and (2) the hoarding of metal currency and even of paper money. It is estimated that there still remain in the hands of the public nearly two and a half milliard francs in gold coin and two milliard in small silver change.

(*c*) *Official Control of Exchange.*

As early as 1916 the Government requested bankers to refrain from all arbitrage operations except those

intended to meet the legitimate needs of the French market.

In July, 1917, a Commission des Changes was created in the Ministry of Finance and instructed to propose any measures calculated to contain within limits the crisis in exchange, and to control the operations of banks and bankers. The control of the operations of banks was made effective by obliging every person dealing in foreign currencies for any purpose whatever to keep a record of his exchange operations.

Finally, the law of April 3rd, 1918, made the control of exchange stricter still.

The following are the principal provisions of this Law, which is entitled: "A law to regulate the export of capital and the import of securities and negotiable instruments":—

(i) *The Export of Capital*, except by permission of the Ministry of Finance, given by the Commission on Exchange, is prohibited under any form whatsoever, namely:—

The acquisition outside France, by means of credit or exchange, of property in securities or cash with a view to investment; subscription to issues; loans; purchases of any property or products whatsoever.

The export of securities for sale whose value will not be remitted in francs.

The direct or indirect purchase of foreign currency for securities; their removal abroad when their value is above 1,000 francs, except through the medium of a person obliged to keep the record of his dealings in exchange.

These prohibitions do not apply to transactions in payment of food stuffs or merchandise to be imported within six months.

(ii) *The importation of securities and negotiable instruments* and of all securities, representing directly or indirectly part of a property or a debt due, is prohibited.

The creation in francs of a certificate conferring on its bearer the right to properties or securities existing

abroad is held to be an importation as defined above. Exemptions may be granted by the Minister of Finance.

Finally, the law provides penalties in case of infringement.

These provisions, which were to have ceased to have effect three months after the ratification of peace, have been extended for one year.

The law of April 3rd, 1918, is applied very liberally by the Exchange Commission. Exemptions are granted whenever the export of capital is made in connection with an import of merchandise, if when certified there is occasion for the import. All cases are very carefully considered; in fact, French merchants and bankers have never suffered from the law, as others have suffered in countries where the Central Office of Exchange has seriously hampered transactions.

These measures have exercised a beneficent influence and helped to stabilise the English and American Exchange in 1917 and 1918.

(*d*) *Official Support of Foreign Exchange.*

During the war, and up to March, 1919, the exchange market was supported by measures supplementing those enumerated in the preceding paragraph (IV (*c*).)

The object was to meet the deficit in the balance of payments by credit operations, to diminish the amount of settlements, and as far as possible, to remove the rate of exchange from the influence of foreign payments. The free market, thus restricted, was easier to control and to stabilise by timely and limited intervention.

All this was made possible only by the centralisation of resources and payments.

On the one hand, the State when it was not acting on its own account, gave its guarantee to most of the credit operations effected abroad. This intervention took the form of sales or loans of gold, the deposit or sale of neutral securities loaned or sold by its nationals, the placing of treasury bonds with the public or their discount by the Governments of foreign

countries, and finally the floating of long term national loans.

On the other hand, private importations were greatly reduced owing to the prohibitions imposed, and the State, either directly or indirectly through trade associations, tended to take over control of imports and maritime transport.

A small amount of the proceeds obtained from foreign credits (corresponding to the amount of private imports) was placed at the disposal of the exchange market through the medium of the Bank of France and the great credit establishments. The rest was reserved for the State, which effected its foreign payments through agencies of the French Treasury established abroad.

Since March, 1919, there has been properly speaking practically no official support of exchange.

The State has reduced, and is every day reducing its purchases, by gradually restoring freedom to commerce. Only wheat and meat are now imported wholly by the State.

The State no longer intervenes on the Exchange market and its action is restricted to the special controls described above.

(*e*) *Forms of Currency in Actual Use.*

Except for subsidiary small change, the only legal fiduciary currency is that issued by the Bank of France; no currency comparable to the British currency notes has ever been issued.

To help the retail trade, and in view of the scarcity of subsidiary coins in certain regions, various Chambers of Commerce have been authorised to put notes of a value of under 2 francs into circulation. An issue of such notes must be covered by depositing in the Bank of France an equivalent amount in Bank of France notes or subsidiary coins. Their circulation is not enforced and is purely local.

(*g*) *Barter.*

There has on various occasions been a scarcity of subsidiary coins, but it has never seriously affected domestic transactions.

On the other hand, the scarcity of international means of payment seriously hampers commercial relations with countries with depreciated Exchanges. There is every reason to believe that the system of barter in international trade already adopted in certain countries as, for instance, Czecho-Slovakia and Poland, will have to be more generally adopted. It is moreover to be expected that settlements will not be made immediately. Supplies of seed, fertilisers and agricultural machinery may, for instance, quite possibly be paid for six or eight months later with the produce of the harvest, obtained by the use of that very machinery and those very seeds and fertilisers.

(*h*) No change in the currency system is at present contemplated.

5.—FACTORS AFFECTING THE FOREIGN EXCHANGE POSITION.

(a) BALANCE OF TRADE. FIRST TEN MONTHS OF THE YEARS 1913–1918–1919.

—	IMPORTS. (Value in thousands of francs.)			Differences.	Percentage of difference.	Special Trade. Weight in metric tons.	
	1913.	1918.	1919.	1919–1913.	—	1913.	1919.
Manufactured articles	1,360,334	5,216,193	6,369,267	+5,008,933	+368	1,272,019	1,335,198
Food stuffs ...	1,439,169	4,443,950	6,830,931	+5,391,762	+374	4,375,774	5,485,166
Raw materials ...	4,032,801	8,263,720	9,969,786	+5,876,985	+146	30,778,641	20,047,729
Total ...	6,832,304	17,923,863	23,109,984	+16,277,680	+238	36,426,434	26,868,093
	EXPORTS.					Weight in tons.	
Manufactured articles	3,449,164	2,395,302	3,782,466	+ 333,302	+ 10	1,911,606	452,368
Food stuffs ...	667,095	351,805	643,059	− 24,036	− 4	1,157,522	347,882
Raw materials ...	1,522,691	881,761	1,102,969	− 419,722	− 28	14,777,146	1,582,878
Total ...	5,638,950	3,628,868	5,528,494	− 110,456	− 2	17,846,274	2,383,128
Adverse trade balance ...	1,193,354	14,294,995	17,581,490	—	—	—	—

(*b*) *Foreign Indebtedness.*

Before the war France was a country without a foreign debt. On the contrary, her savings had been invested abroad to the amount of 48 milliard francs, 12 milliards of which were invested in Russia.

This credit has been increased during the war through advances and cessions of material to the Allies by about 13 milliards.

At present France has a foreign indebtedness amounting to about 3·15 milliards, 16 milliards to the United States, 14 milliards to the United Kingdom and about 1 milliard to neutral countries.

6.—The Effect of Depreciated and Fluctuating Exchanges upon International Trade.

Up to 1919 the French exchanges had not greatly depreciated; and even after May, 1917, the value of the franc in London and New York was stabilised at a discount of from 5 to 10%. But since March, 1919, the exchange has followed a steadily ascending curve. The premium on the pound sterling and on the dollar which in February, 1919, was 3% on the former and 5% on the latter reached 12 and 16% by the end of April, and 17 and 21% by the end of May. Between June 16th and September 16th the sterling rate in Paris rose from 29·33 to 38·50 and that of the dollar from 6·33 to 9·15. The pound sterling reached 45·15 on the 9th of December, and the dollar 11·88½ on the same day, making a premium of 79% and 130% over the franc. The premium of the Swiss franc, which was at 11% at the beginning of March, 1919, reached 18% in April and 20% in May; 76·75% on September 16th and 137% on December 9th. On December 23rd the respective premiums on the pound sterling, the dollar and the Swiss franc were still 58%, 100% and 85%.

This continued rise in the rate of exchange has created a serious situation for the country. It has direct

consequences on the cost of living, and tends to paralyse French purchases abroad. It has also an immediate effect on the burdens imposed on the Treasury; for on the one hand the State, as purchaser of a certain amount of products abroad, must bear the increase of prices caused by the depreciation of the franc, while on the other hand it is obliged to remunerate services of every kind rendered to it at a rate which is constantly increasing, and to raise the salaries of officials and the wages of workmen employed by it in proportion to the rise in prices.

Causes of the Depreciation of the Franc.

The exchange crisis is due to several causes :—

Speculation may be disregarded as being a secondary cause which does not seem to have played an important part, since purchases of foreign currency can be made only for cash and for approved necessities (Law of April 3rd, 1918).

Another cause over which it is not necessary to linger is the export of capital in the form of investments and purchases of foreign securities. The law of April 3rd, 1918, which forbids these transactions is still enforced by the Commission des Changes, although no doubt this law can only be thoroughly effective so long as there is adequate control at the frontiers, and in point of fact it has not been possible to maintain the same rigorous supervision as was exercised during the war.

However, the principal and direct reasons for the depreciation in the exchange value of the currency must be sought elsewhere. The whole problem seems clearly to be dominated by the following causes :—

(i) The adverse balance of trade;
(ii) Fiduciary inflation;
(iii) The change in the financial relations of the Allies resulting from the re-establishment of peace.

(i) *The Adverse Balance of Trade.*

It will be found from the rectified customs statistics that the value of French imports for the year 1919

amounted to 30 milliard francs, and that of exports to about 9 milliards.

The adverse balance of trade for the full current year amounted, therefore, in round figures to 21 milliards.

Before the war it was 1½ milliard; in 1915, it had risen to 7 milliards; in 1916 to 14 milliards; in 1917 to 21½ milliards and in 1918 to 19 milliards.

To understand the situation more clearly, it is necessary to compare the figures of the tonnage imported and exported by France during the first ten months of the years 1919 and 1913.

The tonnage imported into France in 1919 is lower than that imported in 1913 (26·868 million tons as against 36·426). It follows that the enormous increase in value of the imports between 1919 and 1913 (23,109 millions against 6,832 millions) is due almost entirely to the rise of prices since 1913.

The tonnage exported from France during the first 10 months of 1919 amounts to only 2·363 million tons, though it was 67·846 in 1913. This is a decrease of no less than 86%. Not only, then, does the amount of imports, leaving out of consideration the increase in prices, not exceed the pre-war tonnage, but it is actually below the normal level. The loss of equilibrium in the balance of trade is thus to be attributed primarily to the great deficit in exportation.

If the economic situation of France is to be improved, the first requisite is that the necessary effort should be made to restore French exports rapidly to their pre-war figures, and to intensify national production by all possible means.

Imports.—It was foreseen that the return to unrestricted trade after the armistice would produce a considerable increase in the value of imports. It was hoped that these imports would consist principally of raw materials, capable of aiding in the resumption of industrial and commercial life, and hence of stimulating the French export trade. It seemed in this way that the

evil would bring its own remedy with it. Unfortunately these anticipations have been only partially realised.

An examination of the customs statistics for the first ten months of 1919 makes clear the following facts:

(*a*) The value of *food-stuffs* imported in 1919 is almost five times as great as in 1913, although the tonnage of these imports shows an increase of only 25% over that of 1913.

Imports of cereals have scarcely increased in weight, but purchase prices have quadrupled. On the other hand, imports of meat have increased considerably since 1913 as a result of the decrease in the number of livestock. Purchases of sugar have increased in the ratio of 1 to 18, obviously because of the decreased cultivation of beet. These considerable imports are largely explained by deficient home production due to the devastation by war of ten of the richest departments of France.

If the production of food-stuffs returned to its pre-war figure, the French obligations to foreign countries for this item would fall from 8 to 4 or 5 milliards annually.

(*b*) With regard to *raw materials*, France is still suffering severely from the devastation of the richest industrial part of its territory.

The value of the imports of materials necessary to industry amounted to 10 milliards for the first ten months of the year 1919 as against 4 milliards for the corresponding period of 1913.

But in this case even more than in the case of food-stuffs the increase in the import values is caused by the rise in prices.

French imports of coal cost $3\frac{1}{2}$ times as much in 1919 as in 1913; although she purchased only $14\frac{1}{2}$ million tons as against $18\frac{3}{4}$ millions in 1913. In spite of the suspension of war manufactures, the weight of cast-iron and steel imported remains 5 or 6 times greater than before the war, while the value is 30 times as great. This is due to the necessity of reconstructing the devastated areas.

As to these items (coal, pig-iron, cast-iron and steel), a decrease in imports may be hoped for, not indeed at once, but comparatively soon when white coal (water power) and mazout are put to use, and the blast furnaces are running again.

The increase in the imports of cotton and wool (though due entirely to the rise in prices which have more than quadrupled since 1913), may be taken as a favourable sign of economic resumption, since France produces no cotton and but little wool.

(*c*) The importation of *manufactured products* rose to 6,369 million francs for the first ten months of 1919, as against 1,360 million francs in 1913.

Purchases of manufactured goods weigh heavily on the French exchange, since they are made almost exclusively in England and the United States. It is true that the importation of arms will disappear. Moreover, there is no doubt that perceptible improvement might rapidly be effected by such a change in French commercial policy as would favour the importation of manufactured products from countries like Czecho-Slovakia, Germany and Austria with which the exchange is more favourable. In this respect it must be noted as a favourable sign that in recent months there has been a slight falling off in purchases in those countries where the exchange is particularly high.

Exports.—An examination of the progress of exports reveals further favourable signs:

The value of goods sold abroad during the first ten months of 1919 exceeded by over-one-third the value of goods sold abroad in the corresponding period of 1918. The months of September and October in particular show an appreciable improvement.

An examination of the exports under the different categories of merchandise shows that:

(*a*) The export of food-stuffs remains very small. In view of the deficit in agricultural production no appreciable increase can be expected for several years, except perhaps in wine and spirits.

(*b*) The weight of *raw materials* exported has decreased

by 90% since 1913 ($1\frac{1}{2}$ million tons against $14\frac{1}{2}$ millions). This decrease is due principally to the lack of materials for export. The value of exports in raw materials for the first ten months of the year 1919 is 1,103 million francs against 1,522 million francs for the corresponding period in 1913.

(*c*) The export of manufactured goods is, together with the import of raw materials, the surest sign of economic revival. The increase in imports of raw materials during the first six months of 1919 seems likely to be followed after the period necessary for their industrial transformation by a remarkable increase in the export of manufactured goods. There is thus good reason to hope for continuous and increasing improvement under this heading.

Exports during the first ten months of 1919 amounted to 3,303 millions as against 2,395 millions in 1918 and 3,002 millions in 1913. The last two months (September and October) were particularly favourable. During the month of September the value of exports rose to 416 millions, or 74% higher than during September, 1918; during the month of October their value was 423 millions, an increase of 121% on October, 1918.

(ii) *Fiduciary Inflation.*

Fiduciary inflation has a marked influence on the exchange crisis.

The means of payment available have materially increased. The circulation of Bank of France Notes reached 37,275 millions by December 26th, 1919, an increase of more than 31,500 millions since the beginning of the war, that is to say, nearly 530%. The deposits and current accounts in the large banks (Bank of France and the ten most important Joint Stock Companies) exceeded 12,000 millions at the beginning of 1919, an increase of 70% on the figures of the year which preceded war.

The increase in the amount at the disposal of individuals inevitably led to a corresponding rise in prices, for no one hesitates to pay two or three times as much for what he wants, if he has two, three or four times as much money at his disposal.

The return of commercial freedom necessarily tends to increase the imports of food-stuffs and manufactured goods; for national production cannot alone satisfy the country's needs. But the free import of goods can bring down prices only for those few articles of which the world-stock is sufficient. The prices of the other goods will go on rising because of the shortage in the world market. But imports will continue, however high the price of foreign goods may be and whatever surcharge may be added to these prices by the depreciation of the exchange, so long as the final price remains within the limits of the increased currency available.

If this limit goes on extending there is no reason why the rise in prices should stop.

(iii) *Change in Financial Relations.*

Peace has altered the financial relations of France with the Allied and neutral countries, and this is one of the causes of the present depreciation of the franc.

The fact that the franc fell only slightly up to March, 1919, was due to the policy of granting foreign loans to the French Treasury.

The French exchange was also maintained in part by the sale in foreign markets of such neutral securities as had not been lent to the Treasury in 1916.

The change noted in the value of the franc from March, 1919, onwards was due mainly to the cessation of the credits granted by the British Government to France during the war; to the exhaustion of the sterling resources which the Treasury had thus obtained; and to the limitation of the dollar resources used till then in the United States.

It is easy to understand the effect on the exchange of the depletion of the Treasury's sterling and dollar resources at a moment when demands were increasing, if one considers the importance of these currencies as a means of payment for French purchases abroad and also the part played by the Treasury in facilitating foreign settlements. In 1918 remittances in pounds and dollars had reached the equivalent of 9,782 millions of francs

(5,643 millions in pounds sterling and 2,508 millions in dollars). Of these sums the Treasury placed at the disposal of commerce through the agency of the Bank of France 54% of the sterling and 44% of the dollar credits. This proportionate share furnished to commerce by the Treasury rose on an average between the end of December, 1918, and the beginning of March, 1919, to 86% of the dollars and 48% of the sterling. During April, 1919, only 10% of the dollar credits were allocated to commerce and from that time onwards the sterling credits disappeared altogether.

CHAPTER V.

Germany.

Summary.

Before the war German currency consisted roughly of 2 milliards of marks in gold, rather more than a milliard in silver, and rather less than 2½ milliards of marks in Reichsbank notes. Apart from the war reserve at Spandau, the gold reserves were held in the Reichsbank, and amounted to about 1,300 million marks. On the 7th October, 1919, the gold reserve of the Reichsbank stood at rather less than 1 milliard marks, the war reserve at Spandau had ceased to exist, and the paper currency outstanding was estimated to amount to over 40 milliards of marks in Reichsbank notes and loan bank notes.

Before the war the value of the mark in London was about a shilling; in October, 1919, it was less than twopence; in January, 1920, it became worth less than a penny in exchange. The commodity and wages value of the mark is greater within Germany than abroad. This should stimulate exports from Germany and restrict imports into Germany; but, although the price of German manufactured goods is low enough to attract foreign buyers, the supply of them is very small. This shortness of supply is due partly to the reduced efficiency of German labour, but mainly to the exhaustion of stocks and the lack of new supplies of raw materials. These deficiencies cannot be remedied until Germany secures the requisite purchasing power abroad. At present German importers cannot secure the foreign credit they need because foreign lenders are doubtful about the financial and political stability of Germany, and German borrowers hesitate to enter into liabilities in terms of foreign currencies which are daily appreciating

in relation to marks. But even the grant of credit by foreign countries may fail to break this vicious circle, for as matters stand at present a large part of the foreign exchange created by future German exports will be required for the payment of reparation, and, therefore, cannot be used for purchasing imports or paying foreigners who have enabled Germans to obtain goods on credit. The difficulties of the situation are aggravated by the serious fiscal problem of meeting the interest on the internal debt, by the existence of a considerable external debt, and by holdings of mark currency in foreign countries estimated to amount to some 15 milliards of marks.

No practicable measures for dealing with the situation have yet been proposed, and it is doubtful whether any solution is possible without the co-operation and assistance of other countries. The ability of the German Government to deal with the position, and the measures they take, must, of course, depend to a large extent upon the Reparation Commission.

1. The Currency and Banking System before the War.

The only national paper currency issued in Germany before the War was the Reichsbank note, redeemable in gold. The notes were covered by gold to the extent of one-third of their face value, and by bills of exchange as to the remaining two-thirds. A tax of 5 per cent. interest had to be paid to the State on all issues in excess of 550 million marks, or 750 millions at the end of each quarter. Four private banks enjoyed the right of note issue—in Baden, Bavaria, Saxony and Württemberg respectively. Their circulation was inconsiderable. The Reichsbank has a fully paid capital of 180 million marks, privately owned, but the management of the bank is in the hands of the State. The Reichsbank issues all Government loans and keeps the national accounts. It is also the clearing bank for all the important banks in the Empire. Through its 480 branches it receives payments to be placed to the

credit of other banks with the Reichsbank. The Reichsbank will also open accounts for private firms or persons, and money can be sent by these customers all over Germany through the intermediary, if necessary, of the accounts which other banks keep open with the Reichsbank. This system is highly developed and largely takes the place of the cheque system as established in England.

In times of monetary pressure bankers borrow from the Reichsbank on approved securities or by discounting bills. Bills can be discounted at the Reichsbank rate, which varies with the demand for money. Loans on approved securities are charged 1 per cent. over the Reichsbank discount rate.

There are 3,000 to 4,000 other banks in Germany, most of them very small banks indeed. The bulk of business is done by the 20 big joint stock banks. The Deutsche Bank has 102 agencies and branches, the Dresdner Bank 91, and the Disconto Gesellschaft 72. They do all kinds of banking business—current and deposit accounts, discounting, loans, stock transactions and commission business, and the financing and issue of stocks. By combining loan and finance business these banks have greatly assisted the development of industrial companies. All the great banks keep in close touch with a number of the companies they have fostered, and are usually represented on their boards.

Joint stock banks are compelled to publish annual accounts, and as a matter of policy they publish balance-sheets every two months.

2. The Use Made of Currency and Banking Credit to finance the Government during the War and its Effects on the Currency Position.

The Government financed the War mainly by means of long term loans, currency issues and banking credits. They raised relatively small sums by increased taxation. The placing of long term loans was facilitated by the liberal grant of credit to subscribers.

(*a*) *Currency Issues.*—The Reichsbank was formerly permitted to issue notes only against cover of one-third in gold and two-thirds in commercial bills. During the War bank-notes and Treasury bills were allowed as cover in addition to gold and commercial bills. On the 22nd September, 1919, the Reichsbank held 10,722 million marks in loan bank-notes as collateral for Reichsbank-notes in circulation.

Loan banks also made advances to the public against War Loan and a great variety of other securities. These advances naturally increased the funds on which the Government could depend for subscriptions to War Loans.

Before the War the currency in Germany, including coin, amounted to about 5½ milliard marks. At the beginning of August, 1919, Reichsbank notes and Darlehnkassenscheine in circulation amounted together to about 41 milliard marks. On the 22nd September, 1919, the total of loan bank-notes actually in circulation (apart from those held by the Reichsbank as collateral for notes) amounted to 11,500 million marks.

(*b*) *Banking Credits.*—Loan bank-notes were issued directly to the Government for its expenditure, and were used to secure the credits granted by the Reichsbank to the Government.

(*c*) Since the Armistice a third factor, which was inoperative during the War, has had an increasingly great effect on the currency position. During the War the *floating debt* was reduced by the issue of each successive War loan to about 15 or 20 milliard marks, but in the autumn of 1919 it amounted to about 80 milliard marks, owing to the difficulty of floating a long term loan.

All unfunded debt is issued by the Government through the Reichsbank, which places most of the Treasury bills with other banks, who in turn pass on a proportion to their allied commercial companies. In the result, the big banks hold about 65 per cent. of their assets in German Government Treasury bills. At the 31st December, 1918, the Deutsche Bank held about 5

milliard marks in Treasury bills, out of total assets of 8 milliard marks. Thus there had been a great inflation of bank credits immediately after the Armistice. This inflation has been aggravated by the attempts of the Government to support the market for long term War loans, which became very weak after the Armistice. The big banks were induced to buy the long-dated loans from the market, and they were given Treasury bills in exchange for the holdings thus acquired.

The position as regards floating debt has not been remedied by the issue at the end of 1919 of a Funding Loan with disappointing results.

(*d*) *Neutral Credits* arranged by German banks were used as far as possible during the War to finance foreign purchases. Payment was postponed until after the War, and attempts to settle these credits now are a further cause of violent disorganisation in the exchange.

3. Statistics.

(*a*) Gold and silver holdings, approximately :—

—	30.6.14.	30.6.19.
	Millions of marks.	Millions of marks.
At Spandau—		
Gold	300	—
In the Reichsbank—		
(1) Gold	1,290	1,116
(2) Silver, nickel and copper coin ...	340	19

The figures for June, 1919, have been greatly modified by subsequent developments.

Throughout the first years of the War the Reichsbank continued to show a very normal holding of gold, for the reason that the Austrian State Bank, and later Russia, replaced the losses. All gold coin had been called for

during the War, and even jewellery was contributed, to be replaced by paper.

(*b*) Circulation of home currency issues and bank-notes:—

—	30.6.14.	30.6.19.
	Millions of marks.	Millions of marks.
Reichsbank notes	2,407	40,000
Darlehnkassenscheine	—	

(*c*) Estimates of the amount of gold and silver coin in the hands of the public:—

—	30.6.14.	30.6.19.
	Millions of marks.	Millions of marks.
Gold	2,000	500
Silver	1,010	

It should be noted that the German estimates of the amount of gold circulating in Germany before the War (notably the estimate published by the Dresdner Bank in 1911) have been alleged to be exaggerated.

—	30.6.14.	30.6.19.
	Millions of marks.	Millions of marks.
Bank deposits, including those of the Reichsbank	13,658	60,000

(*e*) Exchange rates :—

—	Par.	30.6.14.	19.12.19.
London	20·42	Normal	185
New York	4·20	Normal	·206

After the ratification of peace the exchange value of German marks fell suddenly and reached 360 marks to the £ sterling on the 26th January, 1920.

4. The System of Currency and Banking at present in Operation.

(*a*) *Permanent Alterations in the pre-War System.*—At the outbreak of War the existing currency system in Germany was profoundly modified to suit War conditions.

By law of the 4th August, 1914 :—

(i) The Government reissued Government notes (Reichskassenscheine) in denominations of 5 and 10 marks, and declared them legal tender. Very few are now in circulation. They appear in the Reichsbank return as part of the gold reserve for Reichsbank notes. They were intended to be gold certificates, backed by the gold from the 1870 war indemnity.

(ii) Government and Reichsbank notes were declared inconvertible, to protect the gold in the Reichsbank. The four private note-issuing banks were permitted to redeem their notes in Reichsbank notes instead of gold.

(iii) Loan banks (Darlehnkassen) were established with the right of note issue, and their notes were admitted to rank equally with gold as cover for Reichsbank-notes.

(iv) The Reichsbank was permitted to issue notes against Treasury bills.

It is not possible to say how far these alterations of the currency system are likely to be permanent.

(*b*) *The Convertibility and Acceptability of Currency and Bank-notes.*—Reichsbank notes and Government notes are legal tender. Darlehnkassenscheine are not legal tender. No German paper money is now convertible into gold. All note issues are readily accepted without discrimination.

(*c*) and (*d*) *Official Control and Support of Foreign Exchanges.*—In January, 1916, the Devisenordnung established a strict control of foreign exchange, by which all foreign payments were brought under the indirect control of the Reichsbank through being forced into the hands of a few selected banks in Berlin, Hamburg and Frankfurt. This law was repealed in September, 1919, but a new law required bankers to satisfy themselves that foreign currency is purchased only for a legitimate purpose. Customers are required to sign a declaration as to the nature of their transactions, and copies of this declaration are sent to the local Government representative. The object of this law is to prevent the export of capital and the import of unnecessary goods; it is not directed primarily against a free market in exchange. No attempt is made by the Government to control or fix exchange rates.

(*e*) *Forms of Currency in actual use.*—There are outstanding roughly* :—

	Million marks.
Reichsbank notes	28,500
Loan bank-notes	11,500
Government notes	360
Private bank-notes	250

and an indeterminate amount of small base metal change, as well as the paper issues of many municipalities.

(*f*) *Hoarding.*—During the War the population responded to the Government request that gold should be returned to the Reichsbank. Coin and jewellery were freely surrendered. Silver 2-mark pieces were called in and other silver was also collected. The amount of gold in hoarding has been estimated at from 300 to 500 million marks.

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* October, 1919.

Notes have been hoarded, especially since the Armistice, to escape taxation or to conceal the profits of illicit trade. The Government recently estimated that these hoards may amount to between 5 and 10 milliard marks, which is perhaps a high figure.

(*g*) *Barter.*—There is no barter in domestic trade, the currency being acceptable. At the time of the worst food distress during the War, the towns and the country did a certain amount of exchange of goods, but even then this form of trade was not at all general. Between the German Government and the Governments of neutral countries during the War there were a few barter contracts (food against coal and potash). Similar proposals have been made since the Armistice by big private traders, but they have not, so far, materialised on a large scale, because Germany has been unable to supply for export in sufficient quantities.

(*h*) *Pending Currency Changes.*—Some disturbance has been caused from time to time in the exchanges by rumours of proposals for demonetising or stamping certain issues of notes. A scheme for stamping mark notes of a particular type was, in fact, discussed, but it was abandoned owing to the practical difficulties arising out of the vast number of separate notes that would have had to be dealt with. Notes bearing one particular date were recalled on account of known forgeries.

No radical scheme of currency reorganisation has been decided upon. In December, 1919, the prohibition against the melting down of silver coin was withdrawn.

5. Factors Affecting the Exchange Position.

(*a*) *Balance of Trade.*—The returns of visible exports and imports give no reliable picture of Germany's position. The official reports do not agree with known facts, and a great part of the trade is illicit trade which avoids the Government records. Coal and dyestuffs, to the extent to which they must be exported in reduction

of amounts due for reparation, enter into the official figures but do not provide any immediate assistance to Germany in exchange. Goods imported into Germany across frontiers under German control pay duties in terms of gold; but the Allies insisted until nearly the end of 1919 that goods going through the occupied territory shall only be subject to duty in terms of paper marks. This resulted in an abnormal proportion of the imports going through the occupied territory, and the law requiring payment of customs dues in terms of gold was temporarily suspended by the German Government. The Standard Bank of South Africa reported from Rotterdam that goods for £12 million passed through them for Germany in three months. And on the other hand food grown in Germany, which Germany requires, has been smuggled freely from occupied territory into Belgium. The guess that Germany has imported in the first nine months of 1919, in addition to foodstuffs, other goods to the value of about 10 milliard marks is probably as reliable an estimate as can be got. The exports from Germany available in the balance against these imports have been since the Armistice almost negligible. The home demand is enormous owing to dearth of output during the War and the extravagance of Germans who have made profits during the War. Few factories of any sort have surplus stocks.

(*b*) *Foreign Indebtedness.*—The conditions of the Peace Treaty, calling for an undefined total of exports from Germany as reparation, must act as an even heavier drag on the exchange than Germany's previous liabilities abroad. These were estimated by the *Frankfurter Zeitung* at 5 milliard marks, of which the most important part is due by the Government through German bankers to Sweden and Switzerland, or from big armament firms who had to buy material abroad during the War and who postponed the risk of loss on exchange. Krupp's and many other companies, rather than buy foreign currencies at present rates, continue to pay 8 per cent. interest on sums amounting to hundreds of millions of marks, due by them in francs or kronen.

Another good authority estimates these debts at 3 milliard gold marks, of which 1 milliard is due in Switzerland, $1\frac{1}{2}$ milliards in Sweden, and the balance in Holland, Spain, &c.

Another item of foreign debt is the 15 milliard marks of German currency held abroad. War Loan purchased by the United States and other neutrals and left with German banking correspondents, and some balances in favour of foreigners with the German banks on deposit account, may amount to a considerable sum; but they are proportionately insignificant.

(c) *Inflation.*—The huge floating debt and swollen bank deposits are undoubtedly a prime factor in the German exchange position. The Prussian Government had to take power in 1919 to increase its floating debt from 8 milliards to 15 milliards.

(d) *Uncertainty as to Financial Position.*—Germany was saved in 1919 by the fact that the purchasing power of the mark is greater in Germany than elsewhere. There is a general feeling that this cannot continue: that the Government, for example, will have to give up bounties allowing the workpeople food below cost price. Such bounties were stated by the Finance Minister (Erzberger) on the 2nd October to be at the rate of 7 milliards per annum. Uncertainty as to what will happen if internal prices rise to a level at which they represent the purchasing power of German currency abroad is necessarily a factor in the whole economic and exchange position. The German exchange will, of course, be greatly affected by the action of the Reparation Commission, which has wide powers under the Treaty to modify or postpone the exaction of indemnity. It has been argued by some authorities, however, that action of this kind will not suffice without the grant of long term credits in addition.

Apprehensions as to the future level of taxation have led to every kind of attempt to evade the laws against the export of capital. Until there is some prospect of stabilising the value of the mark, there will be little inducement to work for marks or to export for marks.

If, on the other hand, there were a serious likelihood of the cost of living being reduced and the value of foreign articles being brought once again within the purchasing power of the working classes, there is no doubt that labour would compete for employment at the present rates of wages, and production would go ahead very rapidly.

(*e*) *Uncertainty as to Political Conditions.*—While bankers are to some extent limited by the uncertainty as to whether the tendency of Government in Germany will be to the right or to the left, the country as a whole had been becoming more settled each month until, towards the end of 1919, further symptoms of serious unrest began to develop.

6. The Effects of Depreciated and Fluctuating Exchanges upon International Trade.

Wages in Germany are not yet adjusted to the present low foreign exchange value of the mark. German labour, roughly speaking, earns two and a half to three times the pre-War rates of pay for an eight-hour (in place of a ten-hour) day. The Leipzig Fair showed that machine tools, mechanical and electrical devices and novelties can be supplied from stocks in Germany at less than sterling pre-War prices. In general, to the extent that they do not depend on imported fabrics or raw materials, German wares can be exported at prices that put them beyond the reach of foreign competition, owing to the rate of exchange. Shortage of raw materials and not the internal price level is the cause of the small volume of the exports of manufactured goods. On the other hand, the relatively high price in marks of most goods manufactured in other countries hinders their importation into Germany.

Fear that the mark may further fall in value prevents German bankers from taking up credits abroad and doubts as to the financial stability of the country make foreigners hesitate to grant them. This adds to the difficulties of trade.

7. Proposals for Currency Reform and Improvement of Exchange Position.

In June and July, 1919, various schemes were on foot for correcting the German exchange and financing the import of raw materials by means of banking credits abroad. The schemes broke down, partly, it is understood, on account of dissensions among the German banks, who were to have formed a syndicate, partly because it came to be recognised that banking credits of normal proportions were not a sufficiently powerful corrective in the aggravated circumstances of the currency and exchange position.

The chief remedial measure so far proposed for beginning to deal with the financial situation as a whole, is the Capital Levy, beginning on fortunes of more than 5,000 marks and graded up to a percentage of no less than 65 on fortunes of over 3 million marks. This levy, extended over thirty years, is to be used solely for the redemption of debt. Both corporations and individuals are liable, and it applies to all property, moveable and immoveable, except household furniture.

Other means of reducing inflation and correcting exchange have been freely and widely discussed; but no important official proposals have been made for dealing comprehensively with the exchange position.

CHAPTER VI.

Holland.

Summary.

The monetary policy of Holland is to concentrate its gold reserves in the hands of the Netherlands Bank and to use paper or subsidiary coin for current circulation. During the War currency issues have not been resorted to for directly financing the Government, and floating debt has been periodically consolidated. The nature of the currency is the same as before the War, except that 'silver bonds' have to a great extent replaced silver coin in circulation. Prices have risen considerably, and the volume of both bank deposits and currency issues has increased. But leading Dutch authorities maintain that this is due not to excessive issues of currency or credit, but rather to scarcity and decreased production of commodities. The difficulties of Holland are thought to be economic and not monetary, and to be due to conditions outside and not within the country.

The currencies of Holland and Switzerland stand higher in relation to United States dollars than any other European currency except that of Spain; but their value in exchange fluctuates from day to day, and there are no longer any fixed limits within which these fluctuations are restrained. The resulting instability is damaging to trade, and hinders all economic progress by rendering it impossible to anticipate and rely upon future conditions.

The Dutch East Indies have a currency system of their own which reacts upon that of Holland.

1. The Currency and Banking System before the War.

(*a*) *Currency.*—Dutch *currency* is governed by the Currency Law of 1901, amended by the law of the 31st October, 1912. Before the War the currency consisted of:—

(i) *Metal Coins.*

(*a*) Legal tender to any amount.—In gold: The 10 fl. piece, the 5 fl. piece. In silver: The Ryksdaalder of $2\frac{1}{2}$ fl., the florin, the half-florin.

(*b*) Legal tender to a limited amount.—In silver: The 25 c. piece, the 10 c. piece. In nickel: The 5 c. piece. In bronze: The $2\frac{1}{2}$ c., 1 c. and $\frac{1}{2}$ c. pieces.

(*c*) Not having the character of legal tender.—The gold ducat, a commercial coin without par value weighing 3·494 grammes 983 fine.

(ii) *Bank Notes of the Netherlands Bank.*—These have been legal tender to any amount since 1904 by virtue of the law of the 18th July, 1904. They are issued in denominations of 10 fl. to 1,000 fl.

No Government currency notes had been issued since 1904. The State cannot make a note issue, under existing legislation, without forfeiting its share in the profits of the Netherlands Bank.

In actual fact, gold coins circulated only to a small extent, the major portion of the gold in Holland being concentrated in the reserve of the Netherlands Bank for use in international transactions.

The total silver circulation before the War is estimated at 70 million fl.

(*b*) *Banking.*—The whole banking system centres round the Netherlands Bank, a private bank founded in 1814. It is the only bank of issue in Holland, and no other bank can obtain the right of issue without the passing of special legislation. In return for this monopoly the State has a right to two-thirds of any net profit that the bank may make after providing for a dividend of $3\frac{1}{2}$ per cent., and for bonus and reserve fund payments. The

bank is also obliged by its charter to make advances to the State free of interest, against Treasury bills, within a limit of 15 million fl.

The bank must maintain cover in gold coin or bullion amounting to a percentage of all its sight obligations, which is fixed by Royal Decree. Sight obligations are considered to include bank notes, bills drawn by the *bank on its agencies, and balances in current account.* At the outbreak of War this percentage had stood at 40 per cent. since 1880. Though after the outbreak of War this minimum was reduced to 20 per cent., the lowest percentage of cover actually reached was 32·59 per cent. on the 16th October, 1914.

Besides the issue of bank notes, the following operations come within the province of the Netherlands Bank :—

(1) Discounting of bills of exchange, inland bills and promissory notes ; of obligations and coupons payable in the Netherlands, whether they relate to national or foreign loans, and of similar evidences of debt issued by companies or other approved organisations ; in all cases, however, the person tendering any of the above for discount is responsible to the Bank.

(2) Lending on securities, whether Government securities or shares and obligations issued by companies or other approved organisations : or making advances on property, goods and merchandise, coin and bullion.

(3) Dealings in gold and silver, refining and minting same.

(4) Receiving money on current account.

(5) The purchase and sale of bills and other commercial paper payable abroad.

(6) Taking charge of money and other valuables.

The Bank is forbidden: To give credit and make advances without security ; to buy or own goods ; to buy or own securities except for the investment of not more than $\frac{1}{5}$ of the reserve of its capital stock.

In practice the Bank has never encouraged applications for loans on stocks, shares or merchandise. In ordinary times the Bank systematically declined business

which is more fit to be transacted by ordinary bankers than by a bank of issue.

The Bank also undertakes, without payment, the duties of State Paymaster wherever it has agencies and, also without payment, the charge of the general Government funds in Amsterdam. In addition, it undertakes without payment the treasurership of the National Post Office Savings Bank and of other legally founded institutions and takes charge of all funds, &c. of these institutions.

Before the War, it was the policy of the Bank to hold its gold freely at the disposal of the international bankers whenever the rates of exchange approached the gold parity.

The Netherlands Bank has further tried to simplify and facilitate inland payments as much as possible by the establishment of a cheque and clearing system.

The Bank has 20 branches and 83 correspondents in Holland.

2. The Use made of Currency and Banking Credit to Finance the Government during the War and its effects on the Currency Position.

The financing of the Government was carried out during the War by the issue of long-dated loans. Such short-dated obligations as were incurred by the Government were consolidated from time to time. Issues of fresh currency were not resorted to for the creation of Government credit, nor was the floating debt swollen by any abnormal bank advances.

It is true that in the first months of the War the Government borrowed from the Bank against promissory notes endorsed to the Bank by a banker or well-known stockbroker. The amount of promissory notes discounted in this way had risen to 80 million fl. on the 2nd January, 1915. Early in February, 1915, a loan for 275 million fl. at 5 per cent. was issued and promissory notes were accepted in payment of this loan. This reduced the number of promissory notes out-

standing, but by May, 1915, the large payments and advances made by the Government out of the loan made it necessary for the Government again to bring promissory notes to the Bank.

Further long-dated loans were issued in February, 1916, at 4½ per cent. at par, and in December, 1916, at 4 per cent. at 97. The limit of advances to be made to the State without interest was never increased above the pre-War limit of 15 million fl.

During the War the Government issued currency notes in the form of 'zilver bons' in denominations of 1 fl., 250 c., and 5 fl., legal tender to any amount. This paper money was not, however, used for the financing of the Government. It was intended merely to replace the silver currency which vanished out of circulation as a result of the inevitable hoarding by individuals. The State is bound to withdraw these silver bonds as soon as the Bank can place a sufficient amount of silver at its disposal. On the conclusion of the Armistice silver gradually began to circulate again, and the circulation of silver bonds gradually decreased. It had stood at 10,886,000 fl. at the end of December, 1914; 5,031,000 fl. at the end of December, 1915; 15,862,000 fl. at the end of December, 1916; 27,476,000 fl. at the end of December, 1917. It reached its maximum of 71,594,000 fl. on the 16th November, 1918, and then declined to 52,270,000 fl. at the end of June, 1919, and 40,267,000 fl. at the end of September, 1919. The maximum amount of silver bonds ever in circulation thus corresponds roughly to the estimated silver currency in circulation before the War (70 million fl.). As a further 35 million fl. in 1 fl. pieces were coined during the War, it is clear that the amount of silver bonds outstanding always fell far short of the total amount of silver minted and issued, and served no other purpose than to replace that silver.

No foreign bank-notes circulate in Holland. A great number of foreign notes—chiefly German—were brought into the country during the War. The Netherlands Bank offered to accept a limited amount of these notes

as security for loans at the normal rate of exchange, with a margin of at least 30 per cent. Frequent use was made of this right to pledge bank-notes.

During the War quite thirty municipalities in Holland issued municipal notes. They circulated only a few weeks and were never legal tender.

3. Statistics.

(*a*) *Gold and Silver Holdings.*—In Holland the Government holds no gold reserve. It merely has a quantity of silver in the National Mint, as it is the duty of the Government to provide the necessary quantity of silver for circulation in Holland and the Dutch Indies. There are, further, still smaller quantities of silver coin with the State Paymasters, which are only used to meet the cash requirements of the Government.

The gold and silver reserve in the hands of the Netherlands Bank amounted to :—

—	30th June, 1914.	30th June, 1919.
	Florins.	Florins.
Gold reserve	160,623,432	657,722,250
Silver reserve	9,343,629	8,191,875

(*b*) *Circulation of Currency Issues and Bank Notes.*—The circulation of bank-notes of the Netherlands Bank amounted to :—

—	30th June, 1914.	30th June, 1919.
	Florins.	Florins.
Bank-notes	316,637,460	1,109,964,360

The smaller denominations (60, 40, 25 and 10 fl.) constitute about 43 per cent. of the value of the entire note circulation.

(*c*) *Estimates of Gold and Silver Coin in the Hands of the Public.*—No new gold coinage was put into circulation during the War. The small amount in the hands of the public before the War has been diminished by the melting down of gold coin when the foreign demand raised gold to a premium. It is not possible to estimate with any accuracy the amount of gold still in the hands of the public, but it cannot be considerable.

The National Mint gave the nominal value of silver coins in circulation on 1st January, 1919, as 119,548,000 fl., of which 8,559,702 fl. may be deducted as held by the Netherlands Bank. A considerable quantity of silver has now come out of hoarding into circulation.

(*d*) *Bank Deposits, including those of the Central Bank.*—Balances of current accounts with the Netherlands Bank :—

30th June, 1914. Florins.	30th June, 1919. Florins.
5,299,762	73,359,670

Balances of deposits and current accounts (in thousands of florins) of private banking institutions in Holland :—

—	30th June, 1914.	30th June, 1919.
Rotterdamsche Bankvereeniging—		
Deposits	5,742	44,999
Current accounts...	47,353	301,628
	30th June, 1916.*	
Nationale Bankvereeniging (Utrecht)—		
Deposits	6,915	41,276
Current accounts...	14,212	58,958

* This institution did not exist in 1914.

Balances of deposits and current accounts, &c.—*contd.*

—	30th June, 1914.	30th June, 1919.
Amsterdamsche Bank—		
Deposits	15,850	68,360
Current accounts...	30,500	145,430
De Twentsche Bank—		
Deposits	29,838	45,325
Current accounts	23,263	98,785
Incasso Bank—		
Deposits	5,968	23,202
Current accounts...	10,991	29,443
Marx & Co.'s Bank (Rotterdam)—		
Deposits	962	9,002
Current accounts...	3,507	15,539
Coöperatieve Centr. Raiffeisen-bank te Utrecht—		
Current accounts...	5,163	49,613*
Coöperatieve Boerenleenbank (Eindhoven)—		
Deposits	—	9,602
Current accounts...	7,101	49,056
Nederlandsch-Indische Hendels-bank (Amsterdam)† —		
Deposits	4,314	9,291
Current accounts...	3,806	27,697
Kasvereeniging (Amsterdam)—		
Deposits	12,106	20,570
Current accounts...	9,084	23,129
Ontvang-en Betaalkas (Amsterdam)—		
Deposits	5,827	14,808
Current accounts...	1,785	9,043
Nederlandsche Handel Maatschappij—		
Deposits	64,393	132,687
Current accounts...	111,932	274,900

* The Raiffeisen Bank also books deposits under "Creditors on current account."

† These figures refer only to the branches in Holland.

—	End 1913.	End 1914.	End 1918.
	Florins.	Florins.	Florins.
Nederlandsch-Indische Escompto Maatschappij*—			
Deposits	14,706	12,102	21,225
Current accounts	8,784	9,208	42,383

(*e*) *Exchange Rates* :—

New York parity .. 2·487814 fl. = \$1
London parity .. .. 12·1071 = £1

Quotations for Cable Transfer on New York and London :—

—	30th June, 1914.	30th June, 1919.	19th Sept., 1919.	19th Dec., 1919.
Cable transfer—				
New York ...	$2.49\frac{7}{8}$	$2.57\frac{5}{8}$	$2.68\frac{7}{8}$	$2.68\frac{3}{8}$
London	$12.12\frac{5}{16}$	$11.83\frac{1}{4}$	$11.14\frac{3}{4}$	10.15

4. The System of Currency and Banking at Present in Operation.

(*a*) *Permanent Alterations of the Pre-War System.*—The Dutch currency and Banking system have undergone no permanent alterations.

(*b*)—(i) *The Convertibility of Currency and Bank Notes.*—Before the War, the bank-notes of the Netherlands Bank could always, on demand at the Bank, be exchanged for legal tender currency; at first this exchange took

* The head office of this institution is situated in Batavia, so that the branch in Amsterdam has not the necessary figures at its disposal for making a comparison between June, 1914, and June, 1919.

place in silver, while later gold was also used for this purpose. After the outbreak of war the Netherlands Bank made difficulties about this, *i.e.*, it gave no gold in exchange for bank-notes (this having been made possible by the Government issue of currency notes), since otherwise there would have been a danger of the precious metal being exported or used for other purposes which would have weakened the position of the central credit institution.

Currency Notes.—Currency notes are being recalled as silver is set free by the public for circulation.

(ii) *The Acceptability of Currency.*—The legal tender currency in Holland is universally accepted at its legal value, and there is no difference between the "legal and customary acceptability" in Holland.

(c) *and* (d) *Official Control and Support of Foreign Exchanges.*—There are no restrictions in Holland on dealings in foreign exchanges, neither are the foreign rates of exchange officially supported in any way.

An arrangement was made during the War with the Banque Nationale de Belgique, by which the Netherlands Bank accepted Belgian money at a fixed rate of 47·75 fl. per 100 fr. for the account and risk of the Banque Nationale. The rate was subsequently lowered to the market rate, between 42 and 39½ c. per franc.

(*e*)—(i) *Forms of Currency in actual use.*—The forms of currency in actual use in Holland are:—

Metal Coins.

Silver: Pieces of 2 fl. 50 c., 1 fl., 50 c., 25 c., and 10 c.
Nickel: Pieces of 5 c.
Bronze: Pieces of 2½ c., 1 c. and ½ c.
Gold is not now in circulation in Holland.

Bank Notes.—All denominations of the Netherlands Bank:—10, 25, 40, 60, 100, 200, 300, and 1,000 fl. (Denominations of 500 fl. and 80 fl. cannot be counted among the notes 'in actual use.')

Currency Notes (*issued by the Government*).—Denominations of 2 fl. 50 c. and 1 fl.

(ii) *Relative Values.*—The relative value of the abovenamed forms of currency in Holland is entirely in accordance with the legal regulations. As mentioned above, there was for a time a premium on gold in Holland, caused by the demand for gold from abroad; but in the autumn of 1919 gold was already being offered to Holland from abroad in small quantities and at comparatively favourable prices, and this circumstance is bringing the premium on gold which existed during the War to smaller proportions.

(iii) *Acceptability.*—The above-mentioned forms of currency are accepted at their legal value.

(iv) *Issues of a Foreign Government.*—There are no such issues in Holland.

(*f*) *Hoarding.*—There is reason for supposing that during the War-period gold and silver, as well as bank notes, have been hoarded by the public in Holland. It cannot, however, be ascertained to what extent bank notes and other forms of currency are still being kept back in an abnormal degree by the public. It is further not improbable that, as a consequence of the uncertain state of affairs, there are foreign holders in the countries adjacent to Holland of fairly large amounts of Dutch bank notes, which are thus withheld from circulation.

(*g*) *Extent to which Trade is conducted by Barter owing to refusal of payments tendered in Currency.*—Direct barter of goods in exchange for goods in consequence of refusal of payments in legal currency has not taken place in Holland.

(*h*) *Any pending Currency Changes.*—It is proposed to diminish the silver content of the silver currency in Holland, on account of the rise in the price of silver.

5. Factors affecting the Exchange Position.

(*a*) *Balance of Trade.*—Before giving a short *resumé* of Dutch foreign trade it should be mentioned that the trade statistics are not complete, as they do not comprise all articles; several important export articles,

besides vegetables, condensed milk, live horses, &c., are not included. It should further be noted that the value of Dutch exports is understated, as in the trade returns the 'export value' does not give the price actually obtained from abroad by the exporter, but only the normal market price of the goods in Holland. For these reasons, the figure given in the following table for the export trade is too low, and in consequence the import balance too high*.

—	1917.	1918.	First half-year 1919.
	Florins.	Florins.	Florins.
Import	796,510,000	458,111,000	802,340,000
Export	512,061,000	156,331,000	269,273,000
Import balance ...	284,449,000	301,780,000	533,067,000

(*b*) *Foreign Indebtedness.*—Neither Holland nor the Dutch Indies have issued any foreign loans.

(*c*) *Inflation.*—The amount of bank notes issued by the Netherlands Bank increased during the War to about three times that of the pre-War issue. This increase in the issue of bank notes was largely caused by the importation of gold, which took place from abroad for the adjustment of Holland's favourable trade balance. The increase of the gold reserve is, therefore, the first effect of this importation, the increase in the issue of bank notes being only secondary. Commodity prices rose and there was inflation in that sense, but leading Dutch authorities maintain that the rise in prices was

* The figures concerning Dutch trade before the War and for the years 1914–1916 cannot be used, as they were arrived at by the old statistical method, which was founded on a different basis. 1917 is the first year for which statistics of Dutch trade were drawn up on the new basis.

due not to excessive issues of currency or credit but rather to scarcity and decreased production of commodities.

In support of this view they advance the following considerations :—

That the increased price of goods and of loans naturally entailed a considerable increase in the circulation of bank notes.

That during the War cash payments largely took the place of credit.

That a large quantity of bank notes is being hoarded by private individuals (as a kind of deposit note for money formerly placed on deposit account, which the exhaustion of cash reserves has made it impossible to replace), which quantity, therefore, has not appeared on the market and so did not go to increase the circulation of money.

That, finally, it is highly probable that a very considerable amount of Dutch bank notes is being used by foreigners as an investment for their money.

They conclude from these arguments that there can be no question of any depreciation of currency in Holland through inflation, and that the position of the Dutch florin on the world's market has, therefore, not been injured by the increase in the issue of bank notes by the Netherlands Bank.

(*d*) *and* (*e*) *Uncertainty as to Financial and Political Position* are not factors which exercise any adverse influence on Dutch exchange.

6. The effect of Depreciated and Fluctuating Exchanges upon International Trade.

It is generally agreed that the abnormally adverse exchanges of certain foreign countries, while stimulating Dutch import trade, seriously hamper exports from Holland. This tendency is, however, not developed to its fullest extent on account of the inability of those countries whose exchange has most depreciated to

export at present in any great volume. The adverse rate of exchange on America is of more particular importance to the Dutch Indies.

It is further agreed that the continuous fluctuations in exchange rates are a serious hindrance to visible trade, and that stability in exchange at some level or other is of even greater importance than the actual rehabilitation of depreciated currencies.

7. Proposals for Currency Reform and Improvement of Exchange Position.

The situation in Holland does not give rise to the necessity of any proposals for a reorganisation of the currency or the exchanges.

CHAPTER VII.

Italy.

Summary.

Expansion of currency and credit in Italy during the War has very seriously diminished the purchasing power of the lira both at home and abroad. Attempts are being made to check inflation by the reduction of floating debt and by a capital levy: but in her efforts at reconstruction Italy is hampered by special disabilities which render the present currency and exchange situation particularly serious. Her dependence on foreign countries for raw materials accentuates the adverse balance of trade, and her reliance on foreign travellers and on remittances from emigrants exposed her to additional difficulties when these sources of supply were cut off. The general result of these and other factors has been that the public debt of Italy is greater in proportion to the estimated pre-war wealth than in other victorious countries. In spite of a strict control of exchange operations, the gold value of Italian currency continues to depreciate, and the need of foreign material is so great that the premium on dollars and sterling has not of itself produced the desired reaction towards equilibrium in the exchange of goods and services.

1. The Currency and Banking System before the War.

Italian currency circulating before the War consisted of paper and small change. The paper currency consisted of:—

(i) Bank Notes, issued by the Banca d'Italia, Banco di Napoli, and Banco di Sicilia, in denominations

of 1,000, 500, 100 and 50 lire. The legal tender character of these notes is renewed from year to year. They can be exchanged for other legal tender currency at the Institute of Emission, but the Institute has the option of paying for them in State notes or in metallic currency and of charging a premium for the precious metals. The banks of issue are obliged by law to accept all bank-notes at face value, but a bank of issue is not bound to reissue the notes of another bank, though it generally will do so. The mutual redemption of notes is compulsory every 10 days.

(ii) Currency Notes, issued by the State in denominations of 10 and 5 lire. The three banks of issue, whose monopoly extends until the end of 1923, were all under the supervision of the Government, and paid a proportion of their profits to the State. Their normal maximum circulation was fixed by law at 660 million lire for the Banca d'Italia, 200 million for the Banco di Napoli, and 48 million for the Banco di Sicilia. Any excess circulation above these limits had either to be covered by metallic reserves to the full face value of the excess issues, or, alternatively, was made subject to a proportional and graduated super-tax. But whenever interest-bearing deposits on current account exceeded 200 million lire for the Banca d'Italia, 80 million for the Banco di Napoli or 25 million for the Banco di Sicilia, the normal limit of circulation was automatically reduced by an amount equal to one-third of the excess deposits.

Within the maximum normal limits, bank notes had to be covered by:—

(i) An irreducible minimum metallic reserve of 400 million lire for the Banca d'Italia, 120 million for the Banco di Napoli and 28 million for the Banco di Sicilia.

(ii) A further reserve sufficient to bring the total cover up to 40 per cent. of the normal circulation. Three-quarters of the total reserve had to consist of gold; one-seventh of silver coins; the remainder might be held in foreign bills or foreign credits.

Bank Notes were legal tender, and were not convertible into gold, but into Currency Notes.

Currency Notes were issued by the State to a maximum amount of 500 million lire, and have been inconvertible since 1894.

Besides Notes, the Italian banks of issue may issue obligations payable at sight (but not to bearer), against a metallic reserve of 40%. They may also—

(i) accept deposits on current account bearing interest.

(ii) discount bills with a currency of not more than four months, as well as Treasury bills and warrants.

(iii) make advances for not more than four months against securities of a specified type.

(iv) purchase and sell bills of exchange, drafts and cheques on foreign centres.

(v) invest in securities issued or guaranteed by the State, within limits prescribed by Banking Law.

The official discount rate is identical for the three banks of issue, and cannot vary without the authorization of the Treasury.

2. The Use made of Currency and Banking Credit to Finance the Government during the War and its Effects on the Currency Position.

Since the outbreak of war the following among other emergency measures have been taken:—

(i) The maximum normal circulation of the banks of issue was doubled.

(ii) The maximum limit on the amount of Currency Notes to be issued by the State was increased from 500 million lire to 2,300 million.

(iii) Bank Notes of a denomination of 25 lire were issued after the outbreak of war, the smallest Bank Note until then having been for 50 lire.

(iv) The proportion of metallic cover to be held by banks of issue against their sight obligations (other than Bank Notes) was reduced from 40% to 20%.

(v) Silver was withdrawn into the coffers of the State and ceased to be legal tender. Buoni di Cassa (Notes for 1 and 2 lire) were issued by the Treasury, within a maximum of 310 million lire, against the deposit of an equivalent amount of silver coin of 1 and 2 lire withdrawn from circulation.

(vi) The regulation requiring a reduction of the normal limit of note circulation in case of an excess of deposits was abrogated.

All these measures had the effect of expanding the currency issues for the sake of meeting the financial needs of the Government.

The expansion of credit—and a consequent further expansion of the currency—was also resorted to in the following ways :—

(1) The Government borrowed 485 million lire at $1\frac{1}{2}$% from the banks under the heading of 'Ordinary Advances,' one-third of which is guaranteed by a metallic reserve.

(2) The Government borrowed 5,651 million lire at $\frac{1}{4}$% under the heading 'Extraordinary Advances,' not covered by a reserve but guaranteed by Treasury Bills bearing interest of $\frac{1}{4}$% per annum.

(3) About 1,800 million lire were lent by the Government at a rate of 0·15% through public institutions, chiefly for food supplies, but partly for reconstruction.

(4) 700 million lire were borrowed for the reorganization of the currency in occupied districts.

(5) 700 million lire were lent against security to the Cassa dei Depositi e Prestiti, a Government institution for granting credit to municipalities and provincial authorities.

3. Statistics.

(a) Gold and Silver Holdings.

	(In Millions of Lire.) 30.6.1914.	30.6.1919.
(i) Of the Treasury—		
Gold, in hand ..	136·7	17·6
,, abroad.. ..	—	158·7
Silver	18·4	200·4
(ii) Of the Banks of Issue—		
Gold, in hand ..	1,373·7	1,037·0
,, abroad.. ..	—	439·6
Silver	115·7	113·8
Total ..	1,644·5	1,967·1

(b) Notes in Circulation.

	(In Millions of Lire.) 30.6.1914.	30.6.1919.
(i) Banks of Issue—		
Notes issued for banking operations ..	2,198·9	4,254·9
Notes issued for advances to the Treasury	—	8,026·0
(ii) State Circulation—		
Currency Notes ..	499·1	2,271·3
Buoni di Cassa ..	—	251·4
Total ..	2,698·0	14,803·6

The amount of foreign bank notes held by the banks of issue amounted on—

	Lire.
30th June, 1914, to	549,149·97
30th June, 1919, to	67,864,081·49

Foreign bank notes do not circulate in Italy.

(*c*) *Estimate of the amount of gold and silver coin in the hands of the public.*—Little gold or silver coin remains in the hands of the public. Gold did not circulate widely before the war and silver has now been withdrawn. The amount remaining with the public is, therefore, limited to hoards of one kind or another. A collection of gold coins was organized by decree during the war, but it yielded to the Banca d'Italia little more than 2 million lire.

(*d*) *Bank Deposits.*

	In Millions of Lire.	
	30.6.1914.	30.6.1919.
Banks of Issue ..	1,044·6	2,510·4
Other Banks ..	100·0	774·6
Total	1,144·6	3,285·0

To this total must, however, be added the estimated deposits in the hands of Popular and Co-operative Credit Institutions, Rural Banks, Savings Banks and Monti di Pietá, viz. :—

	Million Lire.
On 30th June, 1914	6,450·8
On 30th June, 1919	9,339·7

(*e*) *Exchange Rates.*

—	Par.	31.12.14.	31.12.15.	31.12.18.	31.12.19.
On New York	5·18	5·30	6·57	6·34	10·82
„ London ...	25·22	25·87	30·99	30·31	44·87

4. The System of Currency and Banking at Present in Operation.

(*a*) *Permanent alterations in the pre-war system.*—The banking system has not been changed. The chief alterations in the currency system that are likely to be

permanent are : (i) the introduction of post office money orders. Their use is being rapidly extended even in out of the way districts; (ii) an extension in the use of promissory notes, cheques and certificates of credit as currency. A recent decree requires circular cheques to have a backing of 20 per cent. in State securities. Any institution which intends to begin transactions with cheques or other equivalent titles, must in future obtain the prior authority of the Treasury to do so.

The increase of circulation has been sanctioned by emergency legislation and the Government have shown their anxiety to re-establish a sound position by drastic taxation and the issue of an internal loan, the proceeds of which are to be applied towards reduction of the floating debt of the Treasury and consequently of circulation.

(*b*) *The convertibility and acceptability of currency and bank notes.*—The currency, including the bank note issue, is practically under a régime of forced legal tender. But there has never been any sign of diminished acceptability, beyond what can be inferred from the increase of prices.

(*c*) and (*d*) *Official control and support of foreign exchanges.*—Official control of the exchanges was during the war exercised by the 'Istituto Nazionale per i Cambi con l'Estero,' in which the monopoly of the dealing in the exchange was vested by decree of 11th December, 1917. The Istituto began its operations in March, 1918, and exercised its functions through the intermediary of the banks acting as its agents. The purpose was to put all dealings in exchange under one control and so to discriminate against demands for foreign currencies required for the payment of unessential imports. No goods could be exported unless invoiced in foreign currency, and the proceeds in foreign currencies could not be disposed of otherwise than to the Istituto; no export was permitted by the Customs unless a certificate was produced that the exchange had been sold to the Istituto. Since the Armistice the

monopoly has been cancelled by a decree dated the 13th May, 1919; the functions of the Istituto were reduced to the exercise of a control over a number of banks to which all dealings in exchange were entrusted under certain regulations. Exporters are still required to pay the proceeds of their exports in foreign currency to one of the authorised banks or institutions within a given period. But they may retain such amounts as are required by them for the purchase of necessary raw materials abroad. By decree of the 24th July, 1919, freedom of importation is restored except for goods specified in a schedule annexed to that decree.

(*e*) *Forms of currency in actual use.*—Currency notes are a legal claim on the Government; bank notes are technically not, in so far as they are issued against gold reserves or commercial assets; that part of the Bank notes circulation which represents advances to the Government is, of course, backed by the Government's credit.

(*f*) *Hoarding.*—There may be a limited amount of gold hoarding in the South, especially in Sicily where, it is believed, hoarding may have existed long before the war, though not to any great extent. Some hoarding of currency and bank notes is supposed to have been practised by ignorant people, but more out of fear of taxation or a forced loan than for any other reason.

(*g*) *Barter.*—It is not thought that any example of barter has occurred. Internal trade has been entirely effected by legal media; external trade (viz., the adverse balance of it) had to be covered practically in its entirety by indebtedness abroad, the invisible exports of Italy (foreigners' expenses and emigrants' remittances) having been almost entirely stopped by the war. There should still be a certain amount of foreign securities to be disposed of, but this item has never been of great importance; Italy has had no time to become an investing nation abroad; since the time at which her pre-war prosperity began, say 1900, she has repurchased very nearly all her own indebtedness placed abroad,

and when she was about to acquire some importance as an investor in foreign countries the war broke out. But for the war Italy would undoubtedly by now be a creditor nation as her power of thrift is great.

(*h*) *Pending currency changes.*—No changes in currency are known to be pending apart from the restoration of its value by reduction of circulation.

5. Factors Affecting the Exchange Position.

(*a*) *Balance of trade.*—The balance of trade is very adverse at present; it should, however, rapidly be righted if world conditions at all approaching to normality are restored.

(*b*) *Foreign indebtedness.*—Foreign indebtedness amounted at the end of 1919 to about £827,000,000.

(*c*) *Inflation.*—It is difficult to give a figure representing the depreciation of currency due to inflation. There is no theoretical standard for apportioning depreciation of currency between its factors which are chiefly :—

(i) The balance of trade (or rather the financial balance).

(ii) The quantity of fiduciary currency.

(iii) Psychology.

(iv) Bad or good management of the exchange question.

Although Italy's balance of trade in her best pre-war years was adverse, and was only equalized by the excess of her invisible exports (foreigners and emigrants) over invisible imports (securities), and although her internal currency never was covered by more than 40 per cent. gold reserves, her exchange gradually recovered after the crisis of 1893 and maintained itself for years previous to the war round about par; it was even over par at times.

(*d*) *Uncertainty as to the financial and political position.*—The financial position of Italy is difficult but by no means hopeless. The recent drastic fiscal scheme

of the Government was received cheerfully and should go a long way towards restoration of the finances of the State.

There is unrest in Italy as elsewhere; but it is not thought that there is any reason to fear serious political trouble. Political developments in 1919 have certainly exercised no important adverse influence on the exchange.

6. The Effect of Depreciated and Fluctuating Exchanges upon International Trade.

An adverse exchange, even as adverse as the present exchange position in Italy, must not be reckoned as necessarily indicating a hopeless economic situation. The adverse exchange, though a serious impediment, carries its own remedies; and in some respects, as was contended in the Anglo-Italian Review for December, 1919, the results can be beneficial. It favours industrial restoration by stimulating export and checking imports.

7. Proposals for Currency Reform and Improvement of Exchange Position.

It appears to be recognized that a settlement of the indebtedness due to the war, a courageous policy for the reorganization of the internal currency and drastic taxation, international understandings as to credits coupled with a strong and capable management are in the long run the real remedies. No violent rehabilitation of the exchange can be sought, but when the above objects have been secured, the rest can be left to natural adjustment.

CHAPTER VIII.

Norway.

Summary.

Currency expansion in Norway since the beginning of the war has been on as great a scale as in other neutral countries, and is attributable to the same causes. Note issues, bank deposits and commodity prices have all risen to an unprecedented extent, and inflation has been attended by all its usual consequences, social and financial. Since the war Norwegian currency has depreciated in the foreign exchange market roughly to the same degree as sterling, mainly on account of the adverse balance of trade. It is understood that no currency reorganization is contemplated.

1. The Currency and Banking System before the War.

(*a*) *Currency.*—Norwegian currency is based upon a gold standard, the monetary unit being the krone, and 1 kg. of gold being coined into 248 pieces of 10 kroner each. The krone is divided into 100 öre, and the principal coins issued are gold pieces of 20 and 10 kronet, and subsidiary silver coins in denominations of kr. 2, kr. 1, 50 öre, 25 öre and 10 öre. Copper coins of 5, 2 and 1 öre are also issued. Gold coins are hardly seen in circulation as bank notes are used. The note issue is a monopoly of the Bank of Norway, which issues notes of the following denominations: Kr. 1,000, 500, 100, 50, 10 and 5. For the privilege of issuing notes the Bank of Norway pays a percentage of its net profit to the State. The Bank is a private bank, but its Statutes and its Board of Directors have to be accepted by the State.

(*b*) *Banking.*—The Bank of Norway had the right

before the War to issue notes of a total face value amounting to 40 million kroner more than the sum of the gold and foreign balances held by the Bank at any time. Any issues beyond this maximum had to be notified to the Treasury, and were subject to a special tax.

Private banking is not subject to State control, nor to any restrictions of banking law, except that permission is required for the opening of new banks or for increasing the capital of existing banks. Savings banks are under State control, and are governed by special legislation. Certain mortgage banks and similar institutions have been founded by the State to encourage building.

At the beginning of 1919 there were 209 Joint Stock Banks in existence in Norway. Few banks in Norway have branches.

2. The Use Made of Currency Issues and Bank Credit to Finance the Government during the War.

During the war the State borrowed 700 million kroner, of which 485 millions were lent by Norwegian banks, and only 225 millions were raised by public subscription.

The note circulation, which stood at 107 million kroner at the end of 1913, and at 134 millions at the end of 1914, had risen to 433 million kroner by June 30, 1919.

Retail commodity prices had risen more than 180 per cent. between July, 1914, and September, 1919.

3. Statistics.

(*a*) *Gold held by the Bank of Norway*:—

On June 30, 1914..	..	44 million kroner
On June 30, 1919..	..	148 ,,

The stock of silver is of no importance, silver being used only for subsidiary coinage, and not being held as part of the reserve.

(*b*) *Bank Notes in Circulation* :—

On June 30, 1914..	..	124 million kroner
On June 30, 1919..	..	433 ,,

No notes but those issued by the Bank of Norway circulate in the country.

(*c*) *Deposits* :—

	Jan. 1, 1914.	Jan. 1, 1919.
Bank of Norway	13 mil. kr.	127 mil. kr.
Joint Stock banks	592 ,,	2,700 ,,
Savings banks ..	606 ,,	1,500 ,,
	1,211 ,,	4,300 ,,

(*d*) *Selling Rates of T.T. on* :—

	Par.	30.6.14.	30.6.19.	19.12.19.
London	18·16 ..	18·26 ..	18·48 ..	18·60
New York	3·73 ..	3·74 ..	4·04 ..	5·07

The fluctuations of Norwegian kroner in foreign exchange have corresponded closely to those of sterling.

4. The System of Currency and Banking at Present in Operation.

(*a*) *Permanent Changes of the Pre-War System.*—There have been no essential changes during the war in regard to Norwegian currency and banking. The chief modifications of the pre-war system are :—

(i) The amount of the tax-free note issue of the Bank of Norway was extended from 40 to 70 million kroner beyond the total of gold and foreign balances held by the Bank.

(ii) The import and export of gold was restricted.

(iii) Notes may now only be converted into gold if a declaration is made that the gold so obtained will not be exported.

It is not anticipated, however, that any of these changes will be permanently maintained.

(*b*) *Acceptability.*—The acceptability of the notes has never been questioned.

(*c*) and (*d*) *Official Control and Support of Foreign Exchange.*—There has been no such control or support beyond the restrictions imposed on the import and export of gold referred to above.

(*e*) *The Forms of Currency in Actual Use.*—No currency circulates except that which has been mentioned above.

(*f*) *Hoarding.*—Hoarding has only taken place to an insignificant extent.

(*g*) *Barter.*—Proposals have been made for barter with Germany: there has been no occasion for barter in internal trade.

(*h*) *Pending Currency Changes.*—No currency changes are known to be impending.

5. The Principal Factors Affecting the Foreign Exchanges.

The balance of visible trade is adverse to Norway, but the profits on shipping are considerable. Foreign indebtedness has probably been considerably diminished since 1914. The index numbers of prices in Norway are an indication of the depreciation of the currency; but the foreign exchange situation is not adversely affected by financial or political uncertainty.

CHAPTER IX.

Russia.

SUMMARY.

At least eight different sorts of paper currency now circulate in Russia proper. Each of these is differently valued in different places, and none of them has any fixed or determinate value abroad. Banking has been nationalised and the printing of notes is admittedly resorted to by the Soviet Government for the purpose of balancing a budget which, at the present rate of progress, is doubled about once every six months. Foreign debt, incurred before and during the War, would involve an annual charge of at least £100 millions for interest. The State debt rose from 9·3 milliards of roubles in 1914 to 33·6 milliards at the beginning of 1917. At that date the note circulation amounted to over 9 milliards against 1,175 million roubles of gold reserve; to-day it probably exceeds 100 milliards, and a very large proportion is hoarded.

Exchange cannot be said to exist, as the foreign trade of Soviet Russia has come to a standstill. Internal trade can in many cases no longer be conducted even by barter.

If any re-organisation of currency is to be attempted, it will probably have to start afresh from the beginning.

1. THE CURRENCY AND BANKING SYSTEM BEFORE THE WAR.

When War broke out in 1914, Russian currency, which consisted principally of notes and a small amount of

gold coin in actual circulation, was in a sound condition, and the country was equipped with a banking system which, though not wholly reliable, was well enough suited to the needs of her agriculture and her small, but new and growing, industry.

The rouble was in origin a coin containing 277¾ grains of fine silver, so that its value was almost exactly that of five-eighths of an ounce of standard silver in London.

The issue of inconvertible notes during the Crimean War brought its value down to 30*d.* and subsequently the effects of further inflation during the Turkish wars and the world fluctuations of silver, brought its exchange value down to 24*d.* During the eighties it recovered to about 28*d.*, but partial failure of the crops in 1891, and consequent prohibition of grain exports, brought it down to 22*d.* Thereafter the currency was put on a gold basis, and by 1914, chiefly as the result of the régime of M. Witte, the rouble had acquired stability both at home and abroad at the level to which it had been devaluated, namely, an equivalent of 9·45 roubles to £1 gold. The emancipation of the serfs and consequent changes in the proprietorship of land had made necessary a double system of land banks for both landlords and peasants, which was working successfully. The right of note issue was confined to the State Bank, which at the outbreak of War held a gold reserve of 1,603 million roubles against its then note circulation of 1,663 million roubles. The size of this reserve in relation to the note circulation may appear surprising, but it should be borne in mind that the collapse of the rouble after the Crimean War was only slowly remedied, and that M. de Witte had a hard task to restore the confidence of foreigners in Russian money. The subsequent history of this gold reserve is referred to below.

The growth of industry in the western towns of the Empire since 1900 had been accompanied by an increase in the resources and activity of private and joint stock banks. All the principal towns had branches of private banks as well as of the State Bank; three or four of the

Russian banks had branches abroad and, to give an idea of the scope of their operations, three of the principal institutions had together in 1916 253 branches, capital and reserves of 218 and deposits of 3,860 millions of roubles. German influence had played a considerable part in the early days of these banks and was still powerful in some cases in 1914. A few of these banks enjoyed first-class credit all over the world, but many were content to attract deposits by offering high rates of interest in the country and to use these deposits for speculation in industrial securities on the Bourses; the peasantry had not generally acquired the banking habit. The State's debt in 1914 amounted to about £930 millions. The State also had liabilities as guarantor for interest on railway debentures. The bulk of the State's debt was held abroad, chiefly in France—and the trade figures for 1912 consequently showed an excess of visible exports amounting to 37 millions (compared with 23 millions in 1895).

2. The Use Made of Currency and Banking Credit to Finance the Government during the War and its Effects on the Currency Position.

Owing to the well-known but exceptional violence of the political changes which have taken and are taking place in what before the War was the Russian Empire, a summary of the financial measures taken on behalf of the Government cannot be scientific. From August, 1914, to March, 1917, the political condition of the country was, broadly, unaltered. But the Empire had lost by invasion the industrially advanced province of Poland, and by the decision to suspend the sale of vodka the State lost a valuable source of revenue from this monopoly, which in 1911 produced nearly 28 per cent. of the Budget receipts. During the War, there were some attempts to raise internal loans, and large sums were borrowed from abroad. Thus the State debt had risen from 9·3 milliards of roubles in 1914 to 16·7 milliards in January, 1916, and to 33·6 milliards by the

beginning of 1917. At the latter date the gold reserve had fallen to 1,175 million roubles, while the note circulation (always the stand-by of Russian finance during a war) had increased to 9,103 millions; *i.e.*, it had roughly been multiplied by five; further, the balance of trade had become unfavourable to Russia to the extent, in 1916, of 75 millions sterling. The rate of exchange had, however, not depreciated proportionately at this date, thanks in part to the pre-existent Chancery of Credit system (under which Russians selling goods abroad had to accept payment in roubles from the Russian Government, to which they handed the foreign monies they had received in the first instance). Other factors which helped to sustain the exchange value of the rouble were the credits given to the Russian Government abroad by the Allied Governments (including £568 millions by England) and some private credits arranged by bankers abroad for the Russian banks, including about £8 millions drawn on London accepting houses and banks. These factors had largely neutralised the effect of the inflation of the rouble circulation and the closing of the Dardanelles to Russia's principal export, wheat from the South. Thus the price paid for £1 sterling had in this time only risen from about 10 to about 20 roubles.

In March, 1917, came the first revolution, which was marked, financially, by more rapid inflation of the currency and a great deal of domestic speculation. In November, 1917, the Bolsheviks obtained supreme power. Various portions of the old Russian Empire, representing, with Siberia, about one-quarter of the whole population, broke away from the centre (now, after many years, once more Moscow), and round the White and Black Seas, as well as in Siberia, Governments hostile to Moscow were established. The Bolshevik rulers, first from weakness and finally out of set purpose, pursued a policy of rapid inflation of the currency, and all connection with a gold standard was completely abolished—part of what gold remained having been removed by the Germans after Brest

Litovsk. By the terms of the Armistice of 1918, Germany was compelled to hand over this stolen gold, which had already figured in the Reichsbank's weekly returns, to the Allies for safe custody on behalf of a reconstituted Russia. The present position in regard to this gold, the remains of the Russian State Bank's own gold reserve, a small amount of Roumanian gold, and the foreign balances claimed by the Russian State Bank from pre-Bolshevik times, is a legal question of some obscurity.

The circulation of Russian roubles, which at 9 milliards at the beginning of 1917 had caused alarm, was largely increased during the Kerenski régime, so that the rate of exchange fell from 20 to 35, and the circulation had risen to 18 milliards. On 31st October, 1918, it was 50 milliards, and on 1st January, 1919, the Bolsheviks officially gave the figure as 55 milliards. On 30th June, 1919, it was officially given as 70 milliards, and unofficially but competently estimated at 85 to 100 milliards, including forgeries. It is now increasing at the rate of 40 milliards a year. Nor does this give a full account of what has taken place. For, according to the Bolshevik organ *Pravda*, economy of notes has been rendered necessary by the perpetual absorption of the output of notes by the peasant sellers of foodstuffs, who can buy hardly any of the tools which they need owing to the breakdown of importation, transport and domestic production, and this economy has been obtained by the "partial abolition of money payments between Government Departments, and the partial payment of State employees in kind."

Further, there are numerous issues of local currency in addition to those made by the various anti-Bolshevik Governments at Omsk, Tiflis, Archangel and elsewhere. Coupons of War Loans are also legal tender, and even the scrip of these loans may be used to make settlements between Governmental and semi-Governmental institutions.

It may be useful here to give a list of the various forms of paper money now in circulation in Russia, amounting

in the autumn of 1919 to perhaps 100 milliards of roubles :—

(*a*) 'Tsar' or Romanoff notes, about 9 milliards genuine and an unknown quantity forged; this is an issue of the State Bank and beautifully printed.

(*b*) 'Duma' notes of 1,000 and 250 roubles, also a note of the State Bank, issued between March and November, 1917, and well printed. About 8 milliards genuine and an unknown quantity forged.

(*c*) 'Kerenskis,' called by the populace 'beer labels,' issued first by the Kerenski and now by the Bolshevik Governments. Small pieces of bad paper, khaki or green. inscribed in red with the statement that they represent 20 or 40 roubles.

(*d*) The new notes of the Bolshevik Government.

(*e*) Stamps, bearing on the back, in place of the gum, the legend that they are legal tender.

(*f*) Treasury bonds of the Omsk and Archangel Governments, bearing interest, used as legal tender in the areas controlled by these Governments. Also a currency printed at Tiflis.

(*g*) Local issues made by branches of the State Bank on the instructions of local Soviets (*e.g.*, the Archangel 'walrus' notes issued before North Russia disowned the Bolsheviks).

(*h*) The North Russian currency, based on a reserve at the Bank of England, and referred to below.

For a short time after the Bolsheviks came into power scarcity of actual rouble notes in foreign centres and certain operations, political in origin, by foreign Governments in Russia itself, maintained the rate of exchange at about 40 to £1, though the real value was not half that. Thereafter, economic laws asserted themselves, and, though in certain places a buyer of Tsar notes (on which sentiment has placed a premium) will only be able to get 120 such roubles for £1, transactions have taken place in Kerenski 'beer labels' at 1,600 to the pound.

As was indicated above, this depreciation of the currency is now regarded with favour by the Bolshevik Government, which in June, 1919, decided to introduce a new note issue of its own (having hitherto relied on reproduction of old types of notes). According to the latest available reports, these notes are regarded by the populace as even more worthless than their predecessors, which are in consequence being driven out of active circulation to some extent. These notes are apparently little different from food tickets, and it is the policy of the Government to educate the proletariat to dispense with money, the symbol of capitalism, altogether. Meanwhile, budgets are introduced half-yearly which are admittedly unreliable, *and each of which is about double its predecessor. That* for the first half of 1919 showed estimates of expenditure amounting to 50 milliards of roubles and revenue amounting to 20 milliards including about 4 milliards from taxes. The balance was to be met by the printing of notes.

3. The System of Currency and Banking at present in Operation.

From what has been said above, it will be apparent that no detailed comparison of Russian finance in 1914 and 1919 is possible on the lines of the information obtainable about such countries as France, Italy, or even Germany. If the Bolshevik Government persists, even in a modified form, money and banking in the conventional sense will have largely ceased to exist by the end of 1920. Any foreign business which Soviet Russia proposes to-day it apparently intends to do by barter. Proposals of this sort had already been made to Sweden in August, 1919. The banks, including after an interval the Co-operative or Moscow Narodni Bank, having been nationalised, all exchange in Russia would be controlled by the State.

The collapse of Russian currency is too complete to render any detailed analysis of value. Gresham's law has long since driven all metallic currency out of circulation. In some districts there is a premium on one type of note, in others of another. But notes of the Tsar régime stand everywhere at a premium over all other issues and are also regarded less unfavourably abroad. This premium does not appear to be based on any sound economic cause, for the Bolsheviks have printed Tsar notes in large quantities, and bundles of these notes, all with the same identification letters and numbers, are to be met with. But the fact is of importance to those who may ever have to reconstruct the rouble; for in currency matters thinking often makes it so, and the Russians really do think Tsar notes are worth more than others.

The foreign trade of Soviet Russia can hardly be considered here, owing to the political anomalies of the relationship of that country to the rest of the world; broadly speaking, barter is the only basis. Within the Soviet area barter fails, because the towns have nothing to offer the peasants. The latter no longer come into the towns looking for work and offering goods, but remain at home and grow what food they need themselves. Their stockings are filled with unprecedented quantities of notes, received as compensation for their property expropriated in the earlier days of the Revolution. Examples of barter need not be given; it is sufficient to refer to the appeals officially issued by Lenin to the industrialists of the 'Centro-Textile' and other State trusts to increase production in order to provide a stock of manufactured goods to barter against the peasants' wheat. The experiences of the Allied troops in North Russia in regard to the uselessness of ordinary currency and the value of cigarettes, &c., only confirm what is admitted by the Bolshevik Government.

It should be added that General Denikin's Government began in 1919 to ship goods consigned to its agent in England, the financing of the transaction in Russia being presumably handled by General Denikin.

4. Factors affecting the Exchange Position.

Considerations of Russia's foreign exchange system are also dominated by the anomalies and uncertainties of the political situation. The depreciation of currency, and uncertainty as to Russia's financial and political stability, cannot be exaggerated. If the Russian Government were to acknowledge its foreign debts the annual charge for interest thereon would amount to at least £100,000,000 or three times the amount of the Russian pre-War excess of visible exports. Any revival of Russia's exports would also have to be preceded by heavy importations of agricultural and other machinery for which a minimum of foreign credit equal to about 50 millions sterling would be required. This credit would have to be regarded as a definite addition to Russia's deadweight of debt abroad, and it would only be after the relative goods had been distributed tha. it would be worth while resuming normal trade. This trade in its turn would probably have to begin with at least the normal amount of imports into Russia, against which Russia's principal exports are wheat, flax, timber, oil, metals, hides and butter, all of which command a ready market at high prices—if they can be exported.

5. The effect of Depreciated and Fluctuating Exchanges upon International Trade.

For all practical purposes Russian 'exchange' no longer exists, and the problem of the effect of the fluctuation of the value of the rouble upon international trade has ceased to occupy the minds of commercial and financial authorities.

Those who are not prepared to accept Lenin's view that Russia's future foreign trade must be done by exchange of goods between Governments concern themselves with schemes for reconstituting the rouble or for creating a completely new currency.

6. Proposals for Currency Reform and Improvement of Exchange Position.

An experiment has actually been made for reorganising in part Russia's currency and foreign exchange, namely, that devised by Mr. Keynes of the British Treasury, and actually put into force in 1918 in North Russia. This experiment, of more importance potentially than actually, is described in the *Economic Journal* for September, 1919. It consisted of an Emission Caisse issuing notes on the very conservative basis of a reserve of 75 per cent. of foreign money, the notes being convertible into foreign money on the basis of this reserve and without guarantee from a foreign government. Reference should also be made to the fact that before depreciation had gone nearly so far as it has now gone, several proposals were made for the formation of a foreign or inter-allied bank, having the right both to receive deposits (and thus curtail inflation) and to issue its own notes, with or without a foreign or inter-allied guarantee. These proposals have not been revived in the present condition of Russian currency. It should also be said that in North Russia, in 1918, the provisional Government made a proposal that it should be empowered to issue notes guaranteed by the Allies against security of forest rights to be given to the Allies; and other similar proposals have been discussed. To all these the objection applies that, if the notes were really of value, they would at best provide a means for foreign trade, but for internal purposes they would be rendered useless by Gresham's law. Judging by the actual operation of the same law in Russia itself, it would seem that the ordinary Russian is of opinion that, if the Bolshevik Government were overthrown, all currency except the 'Tsar' and perhaps the 'Duma' notes would be left out of any revaluation scheme. If Russia were thus restored to a pre-Bolshevik position in currency, she would find herself with a gold reserve of about 110 millions sterling and a genuine pre-Bolshevik note issue (excluding 'beer labels') of say about 16 milliards

of roubles. In addition, her forged 'Tsar' and 'Duma' notes could hardly in practice be distinguished from the genuine, so that the difficulty of giving the rouble an intrinsic value of even 6*d.* would be considerable, even with a very low proportion of gold reserve.

The general conclusion of those who have studied the whole subject seems to be that reform of the currency in Russia can only proceed side by side with an extension of credit (*e.g.*, 50 millions sterling, or the equivalent in dollars) for the import into Russia of the machinery, &c., which the inhabitants need, as a minimum, before they can really settle down to work once more.

CHAPTER X.

Spain.

Summary.

The gold held by the Bank of Spain has increased by over 300 per cent. during the War. The volume of notes outstanding is less than double what it was in 1914, and the metallic cover held against these notes stands at more than 80 per cent. of their face value. Such extension of credit facilities as there has been is due in large measure to the loans granted to the Allied Governments. Commodity prices have risen and are now a source of dissatisfaction: but the general financial position of the country is stronger than might appear from the annual budgetary deficit, and it has been improved during the War. Spanish currency is now selling at a premium in nearly every foreign financial centre. The banking system is capable of great extension if the public could be induced to avail themselves of its facilities.

1. The Currency and Banking System before the War.

The Spanish currency system which was in force at the outbreak of the War is based upon the Act of the 19th October, 1868, which established the peseta as the monetary unit of the country. The Act provided for the issue of legal currency coins in gold of the value of 100, 50, 20, 10, and 5 pesetas, and silver coins of 5 pesetas (also known as a duro, or dollar), 2 pesetas, 1 peseta, ½ peseta and 20 centimos, while there are also copper coins of the value of 10, 5, 2, and 1 centimos.

The monopoly of coinage was retained by the Government only in the case of certain of the silver and copper coins, the general public at first being allowed to present gold and silver to the Mint for coinage; but at a later date this concession was withdrawn, and in 1901 the Spanish Mint was definitely closed against all such free coinage.

As regards the paper money of the country, there is no actual Government note issue; bank notes issued by the Bank of Spain payable to bearer are convertible into silver on demand and are legal tender: but other notes are neither legal tender nor convertible. As a matter of practice all bank notes are readily accepted in daily commercial transactions and even in the smallest hamlets they are as highly regarded as was previously the gold coinage of the country.

The Spanish banking system prior to the War was based upon the French system of sole emission, the Bank of Spain having the sole right of issuing bank notes to bearer. This institution is a joint stock company with a capital of 150,000,000 pesetas, and it works under the direction of a Governor and two Sub-Governors, who are nominated by the Finance Minister, and of an Administrative Council elected by the shareholders. For many years past the Bank of Spain has acted as banker to the State, and in this capacity it originally granted to the Spanish Government an advance of 75,000,000 pesetas, which was increased to 150,000,000 pesetas in August of 1918. This exhausts the legal borrowing powers of the State from the Bank; but in actual practice the Treasury overdraft has on various occasions exceeded the maximum amount mentioned, and the Bank of Spain still retains in its possession souvenirs of past unprofitable expenditure by the State which it has financed, in the shape of promissory notes issued by the Treasury for a value of 100,000,000 pesetas, while it also holds a further 344,500,000 pesetas of Spanish Public Debt. The Bank before the War had the right to issue notes up to the maximum amount of 2,000,000,000 pesetas (since increased to 4,000 000 000

pesetas), guaranteed by metallic reserves, in the following form :—

(Millions of pesetas.)

—	Gold.	Silver.
Up to 1,200 millions	200	200
From 1,200 to 1,500 millions ...	120	60
From 1,500 to 2,000 millions ...	250	100
Total	570	360

Apart from the Bank of Spain the only 'official' institution in the kingdom is the Spanish Mortgage Bank, which has the exclusive right of issuing guarantee warrants (Cedulas) to bearer. All the other banks of the country, *e.g.*, the Bank of Bilbao and the Bank of Barcelona, are of a private character. It may here be recalled that since the commencement of the War banking in Spain has experienced a new development as a result of the establishment there of branches of some of the English institutions.

2. The Use made of Currency and Banking Credit to Finance the Government during the War and its effects on the Currency Position.

Spain was not an active participant in the War, but, notwithstanding this, special expenditure of a national character was involved by the existing conditions and special measures had to be taken to provide for this expenditure. Reference has already been made to the additional credit of 75,000,000 pesetas obtained by the Government from the Bank of Spain, while the floating debt was largely increased until it was absorbed by one or two Consolidated Loans issued during the latter part of the War period. At the end of March, 1914, the Spanish floating debt amounted to 237,500,000 pesetas, which, after a series of renewals, reimbursements and new issues, has now entirely disappeared, having been

converted by means of the Consolidated Loans, the first of which (issued in March, 1917) effected a reduction in the floating debt of 721,000,000 pesetas, and the second (placed in June of 1919) a reduction of 1,173,000,000 pesetas. As a further consequence, the Spanish Public Debt was increased by approximately 2,684,000,000 pesetas, of which 1,028,000,000 pesetas (nominal) was in the form of 5 per cent. Bonds running for 50 years and the balance in 4 per cent. Perpetual Debt. The National Debt of Spain stood at approximately 12,432,000,000 pesetas in the autumn of 1919.

There were no new issues of gold coin during the War period, the Royal Mint not being in a position to deal with the large amounts of foreign gold which were imported into Spain during the five years. For this reason, and in view of the fact that the only foreign money which is legal tender in Spain is that of the Latin Union, the gold imported was stored in the vaults of the Bank of Spain, where it served a useful function as cover for the bank notes, the issue of which increased very greatly during the War period.

3. Statistics.

(*a*) *Gold and Silver Holdings of the Government or Central Bank.*—The following table shows the position of the Bank of Spain on the 30th June, 1914, and the 30th June, 1919:—

	30th June, 1914.	30th June, 1919.
	Pesetas.	Pesetas.
Gold in hand	531,601,879	2,271,239,536
Silver in hand	731,003,124	656,533,226

It will be noted that during the five years the stock of gold in the Bank of Spain has increased by over 1,740,000,000 pesetas, or a growth of about 325 per

cent. of the pre-War total. The silver holding shows a slight contraction, which, however, is comparatively negligible, and taking the comparative figures of gold and silver together, it will be seen that the net increase in the Bank's metallic stock during the five years was 1,665,000,000 pesetas. This (as is shown below) compares with an increase of 1,624,000,000 pesetas in the note circulation between the middle of 1914 and the 30th June, 1919, so that the expansion in the note issue in this period was fully covered by gold, peseta for peseta.

(*b*) *Circulation of Home-Currency Issues and Bank Notes.*—In 1914 the amount of notes issued was 1,892,000,000 pesetas, but the total has now grown to 3,516,000,000 pesetas. This increase in the currency was in part due to the granting of credits to France and the United States—a matter to which reference is made on a later page. On four separate occasions the Government gave authority to the Bank to increase its maximum note issue. The first of these was on the 5th August, 1914, immediately following the outbreak of War, when it was provided that the circulation between 2,000,000,000 pesetas and 2,500,000,000 pesetas should be guaranteed by a special holding of 500,000,000 pesetas in specie, though whether in gold or in silver was not specified. On the 10th March, 1917, the maximum issue was further increased from 2,500,000,000 pesetas to 3,000,000,000 pesetas. On the 6th August, 1918, it was further expanded to 3,500,000,000 pesetas, and on the 2nd January, 1919, to 4,000,000,000 pesetas. The increase in the authorised note circulation in 1918 was not granted very readily by the Government. In the summer of that year the note circulation had reached to within a few million pesetas of its existing limit and applications made by the Bank of Spain to the Government for further extension had an unfavourable reception. In order to prevent the issue exceeding the amount authorised, the Bank of Spain immediately availed itself of the right to pay in silver,

and vehicles of all descriptions, from motor cars to bullock wagons, were utilised for the transport of varying amounts of silver coin, the weight of which, of course, frequently became a source of embarrassment to the casher of cheques. After a few weeks of considerable inconvenience to the trading community the Government gave the necessary authority for an increase in the note issue, but a restriction was placed upon the amount of the new issue which could be applied to the purchase of foreign gold coin. During the period 1916–1918, the Bank of Spain lowered its buying price of gold coin to substantially below par, and for some considerable time the English sovereign was received at the Bank of Spain at 24·75 only, instead of 25·22, this representing a discount of about 2 per cent. On United States gold dollars the arbitrary discount established by the Bank of Spain was even greater, namely, about 6½ per cent., the buying price being fixed at 4·85. As a consequence of this discount to which foreign gold coin was made subject, means were sought of evading the Bank of Spain's regulations, and to this end arrangements were entered into between the respective governments, by means of which British gold was exchanged for 20-fr. pieces by the Bank of France, these 20-fr. pieces being then transported to Spain, where they were exchanged at par, namely, 20 pesetas for 20 fr. In the opinion of many experts the reduction in the buying price of gold by the Bank of Spain added still further to the difficulties which that country encountered during the War in carrying on its international trade.

Against all the issues above referred to the Bank was required to hold a correspondingly larger metallic reserve. As a consequence of this provision and of the very large import of gold, the metallic cover against bank notes in circulation, which on the 30th June, 1914, was 66·72 per cent. (28·09 per cent. being in gold and 38·63 per cent. in silver), had increased by the end of June, 1919, to 81·79 per cent. (63·73 per cent. gold and 18·06 per cent. silver).

(*c*) *Estimates of Amount of Gold and Silver Coin in the hands of the Public.*—It is impossible to estimate, even approximately, the amount of the gold coin in the hands of the Spanish public.

(*d*) *Bank Deposits.*—The deposits of the Bank of Spain and the other banks of the country at the 30th June, 1914, and the 30th June, 1919, were as follows :—

	30th June, 1914.	30th June, 1919.
	Pesetas.	Pesetas.
Deposits in Bank of Spain	485,346,060	983,416,743
Deposits in other banks...	849,000,000	2,101,400,000

It will be seen that the increase in the deposits of the outside banks was proportionately greater than in the case of the Bank of Spain, but this is partly due to the fact that the figures for 1914 refer to 41 banks while those for 1919 refer to 49 banks, eight new institutions having been formed in the interval. No very precise conclusions should be drawn from the aggregate increase in the deposits of the Bank of Spain and the outside banks together, for, naturally, part of the increase of 500,000,000 pesetas reported by the Bank of Spain is attributable to re-deposits with that institution by the other banks of the country.

The large Spanish institutions, as well as private bankers, are reputed to hold in their safes very large amounts, not only of Bank of Spain notes, but of actual Spanish silver coins.

(*e*) *Exchange Rates on New York and London.*—

—	Par.	30th June, 1914.	30th June, 1919.	19th Dec., 1919.
London (pesetas to £)...	25.22	26.21	23.10	19.20
New York (pesetas to $)	5.18	5.53	5.07	5.12

The quotations of Spanish exchange on the London and New York markets fluctuated very considerably during the War period. During the early part of the war rates were fairly stable, cheques on London being quoted in Madrid at as late a date as the 10th February, 1916, at 25·14; but on the 1st June, 1918, the quotation had dropped to 16·65, which was the lowest recorded during the five years. The dollar was at its highest in 1915, when the Spanish quotation in New York was 5·38 pesetas per dollar, the lowest rate, which was touched on the 12th June, 1918, being 3·50 pesetas.

An interesting factor to be taken into account in examining the economic position in Spain during the latter years of the War was the very large number of Spanish labourers working in France. It is estimated on a conservative basis that the remittances of these labourers amounted to not less than 500 million pesetas per annum. This made a considerable addition to the difficulties which the Allies had to face in their exchange transactions with Spain during the period in question.

4. The System of Currency and Banking at present in Operation.

(*a*) *Permanent Alterations in the Pre-War System.*—The present system of currency and banking in Spain scarcely differs in any respect from the pre-War system. Several Ministerial projects were brought forward, which, had they become operative, would have effected considerable changes, but none of them passed the "projected" stage. Amongst these, one of the most important was that introduced in 1916 by Sr. Alba, who at that time occupied the position of Finance Minister. This was concerned with the management and distribution of profits of the Bank of Spain, the real object of the measure apparently being to divert some of these profits to the National Treasury.

In 1918 Sr. Gonzalez Besada, a Cabinet Minister, appointed a commission of technical men to consider

the conditions upon which the privilege enjoyed by the Bank of Spain up to 1921 might be extended. This commission in its report advocated that the State should have a share in the profits of the Bank, but, in view of the fact that a private vote was presented against this decision, and having regard to the existing condition of Spanish politics, this recommendation was not followed up by the Government. In the summer of 1918 it was proposed to withdraw bank notes of 25 pesetas and replace them in the circulation by a portion of the foreign gold coin then held by the Bank of Spain. The equivalent values in Spanish currency were to have been embossed on the foreign gold coins, in view of the inability of the Spanish Mint to produce Spanish coins. These ideas were not favourably received.

(*b*) *Position of Currency and Bank Note Issues.*—The position of the currency and bank notes in Spain has not changed as a result of the War. The greater part of the gold imported during the five years was deposited in the Bank of Spain, and only a trifling amount was added to private stocks of the metal. It may be noted that the present stock of gold at the Bank of Spain, which amounts to approximately 2,410,000,000 pesetas, is made up of 1,920,000,000 pesetas of foreign gold (principally dollars and sovereigns), 368,000,000 pesetas of current Spanish gold coin, 10,000,000 pesetas of ancient Spanish coin and 111,000,000 pesetas of bar gold. The available records show that the total number of gold coins which have been struck in Spain since the establishment of the mint is 37,997,549, the value being 960,613,935 pesetas, while the number of silver coins struck since the establishment of the peseta as the monetary unit is 423,221,891, of an aggregate face value of 1,333,389,307 pesetas. Of this latter amount, some 553,000,000 pesetas is estimated still to be in circulation.

(*c*) *Official Control of Foreign Exchanges.*—At no time during the War period was the foreign exchange market in Spain subjected to official control.

In the autumn of 1919 stringent exchange regulations

were introduced, partly with a view to checking the growth of speculation in foreign currencies.

(*d*) *Official support of Foreign Exchanges.*—In view of the favourable exchange position which Spain enjoyed throughout the War period, there was no necessity for official support of the foreign exchanges in the generally accepted sense of that term. In 1916 imports of foreign securities into Spain were prohibited, and in 1918 all foreign stocks, old or new, were required to be stamped in order to increase the effectiveness of this embargo. It is important to note, however, that the prohibition was more apparent than real, the authority for the admission of foreign securities being obtainable with the greatest facility, so that in practice the measures resulted rather in official cognisance being taken of the total amount of foreign securities which were imported into Spain than in a prohibition of such imports.

Officially, the Spanish Government did not lend financial assistance to any of the belligerent countries, but it gave every encouragement to the Bank of Spain and the private banks of the country to grant such credits. The mechanism employed for the purpose of these various loans was almost identical. In the case of France, a loan of 350,000,000 pesetas was agreed to, this being divided into 10 monthly payments of 35,000,000 pesetas each. For this maximum monthly amount a French banking house drew bills of exchange on a Spanish banking house, these bills being renewable every three months up to a maximum limit of two years, the final maturity, therefore, being in March, 1920. In addition to the signatures of the guarantors, the bills are guaranteed with a margin of 40 per cent. by the deposit of obligations of the French Treasury, carrying 5 per cent. interest, payable in pesetas. These securities were lodged in Spain, and the French Government also undertook during the currency of the credit to pay the coupons on that part of Spain's foreign debt which is held in France. In January, 1920, these credits were renewed for a further period.

The Spanish Government gave its subsidiary guarantee to the Bank of Spain in order to enable that institution to take up the French bills and to rediscount them for the Spanish banks, and, in order further to facilitate this operation, authority was given (as has already been mentioned) for a further increase in the fiduciary note circulation of the bank. The rate of interest charged on the bills was 6½ per cent., but after the ninth month the agreement was modified, the rate of interest being reduced to 5 per cent., plus banking commission, while the total amount of the credit was increased to 420,000,000 pesetas.

The agreement with the United States was dated the 13th August, 1918, and under it a banking loan of 75,000,000 pesetas was granted, this, on the 25th September following, being increased by 175,000,000 pesetas, making 250,000,000 pesetas in all. This was to be utilised within nine months by monthly drawings, which in no case were to exceed 50,000,000 pesetas in any one month. The bills by which this credit was operated were drawn by certain of the American banks, and were guaranteed by the deposit of 4½ per cent. obligations of the United States Treasury. The loan was repayable at the end of one year in pesetas or in American gold, the import of which latter the Spanish Government undertook not to obstruct. The remittance of the first instalment in repayment of this loan was effected towards the end of September, 1919.

A commercial agreement was signed with England in April, 1919, under which the Spanish Government granted to the British Government a loan of 75,000,000 pesetas at 5 per cent. interest, which was to be repayable on the 1st July following. Among the conditions of the loan were the shipment of 150,000 tons monthly of British coal to Spain and the removal of the restriction of British imports of fruit from Spain. The details of this loan, however, have been kept very strictly secret by the Spanish Government. There is reason to believe that the British Government never availed itself of this loan.

Italy, Belgium, and one other country are believed to have been in negotiation for credits in the Spanish market.

(e) *Forms of Currency in actual use.*—The chief units of currency have already been noted. All Spanish coins are accepted by the Treasury to any amount, but in ordinary transactions only the gold coins and the silver dollars are legal tender. It may also be noted that the 50-peseta and the 5-peseta gold pieces never came into actual circulation, but 25-peseta pieces were coined under the Royal Decree of August, 1876. The notes issued by the Bank of Spain are of the denominations of 1,000, 500, 250, 125, 100, 50 and 25 pesetas each.

All commercial transactions are carried out through the medium of the national coins and the bank notes issued by the Bank of Spain, which are accepted by the public without any limitation whatever and are even preferred to silver as being easier to handle. For international commerce, instruments of credit and current exchange are utilised, all instruments drawn and coming from abroad being admitted without any difficulty whatever, apart from the usual requirements as to solvency, recognitions of signature, &c. Stocks and shares of foreign origin have not been commonly used as a direct means of payment, though in a few cases these have been utilised as a form of guarantee. Nevertheless, owing to the facility which the Spanish Debt Office has given for the importation of these securities, they might possibly be utilised as a means of settling accounts with Spanish creditors. Indeed, the Spanish branches of several foreign banks established in that country have in some cases balanced the account of Spanish clients by these means.

(*f*) *Hoarding.*—It is impossible to estimate the volume of this, but it is probably unimportant.

(*g*) *Barter.*—So far as internal transactions are concerned, there has been no need to resort to barter, but it may be of interest to note here that during 1918

arrangements were entered into with Great Britain, the United States of America and France, by which these countries exported certain commodities to Spain and Spain reciprocated by supplying other commodities. As has already been stated, however, these transactions were largely financed by means of credits raised for the purpose in Spain.

(*h*) *Pending Currency Changes.*—So far as is known, there are no changes in the currency system pending.

5. Factors affecting the Exchange Position.

(*a*) *Balance of Trade.*—Normally, Spanish trade returns show an excess of imports of merchandise over exports, and in only a few years during the past half century has the reverse applied. Since 1891 foreign currency has usually stood at a decided premium over the peseta, which in 1898, at the most important period of the Spanish-American War, reached the extraordinary height of 215 pesetas to 100 fr. Three years later various economies were initiated in the national expenditure and it was decided that customs duties on imported goods should be payable in gold. From this time financial and economic conditions in the country showed a steady improvement, coincident with the development of its industrial and mercantile elements. Spain, however, is primarily an agricultural country and the prosperity or failure of the crops is promptly reflected in the commercial balance. The premium on sterling and the franc, however, was showing a distinct downward tendency before the outbreak of the War, and when that conflict commenced Spain was particularly affected. In the first place, the demand on account of neighbouring countries for everything in the nature of agricultural products, cattle, food-stuffs, iron ore, copper, and manufactured articles, was stimulated, while Spanish imports showed a contraction in nearly every direction, partly because the belligerent countries recognised the

necessity of retaining commodities which previously they had been eager to export, partly because the manufacture of such commodities in foreign countries was interfered with by military necessities, and partly because of the shortage of shipping. As a consequence of this change in trade conditions, imports of gold showed a remarkable increase, while the exchange value of the peseta, which prior to the War was normally at a discount, also steadily improved until a substantial premium was established.

In the following table there are shown the average rates of Spanish exchange on Paris and London for each year from 1913 to 1919 :—

Year.	France.	Pounds Sterling.
	Pesetas per 100 fr.	Pesetas per £ sterling.
1913	107·43	27·12
1914	104·83	26·27
1915	94·06	24 95
1916	85·55	24·00
1917	77·05	21·13
1918	74·50	20·62

The general trend of Spanish trade during the past few years may be gathered from the following table :—

(000's omitted.)

Importation of—	1913.	1914.	1915.	1916.	1917.	5-yearly total of 1913-17.	5-yearly average.	1918.	January to May of 1919 inclusive.
	Pesetas.	Pesetas.	Pesetas.	Pesetas.	Pesetas.	Pesetas.	Pesetas.	Pesetas.	Pesetas.
Live stock	30,346	8,289	3,573	5,069	5,775	53,052	10,610	6,893	1,059
Raw materials... ...	520,694	451,095	534,825	456,879	347,480	2,310,976	462,195	275,839	175,211
Manufactured goods ...	483,472	311,644	207,655	254,447	249,112	1,506,333	301,266	164,878	93,858
Foodstuffs	271,537	251,518	222,037	196,944	131,454	1,073,493	214,698	128,096	65,745
Totals	1,306,050	1,022,548	968,092	913,340	733,823	4,943,856	988,771	575,708	335,875
Gold in bullion and coin	205	25,448	220,298	355,379	590,774	1,192,105	233,421	33,858	0·84
Silver in bullion and coin	2,828	2,968	18,699	12,619	1,570	38,686	7,737	285	100
Totals	1,309,084	1,050,965	1,207,090	1,281,339	1,326,168	6,174,647	1,234,929	606,852	335,976
Exportation of—									
Live stock	18,928	6,012	2,296	10,831	4,626	42,694	8,538	5,514	489
Raw materials... ...	333,119	255,993	233,931	259,525	241,672	1,323,183	264,636	179,023	78,718
Manufactured goods ...	251,313	249,998	605,139	558,454	533,033	2,197,940	439,588	420,586	226,711
Foodstuffs	454,272	355,821	402,079	532,736	533,981	2,276,891	451,378	333,284	247,390
Totals	1,057,633	867,766	1,242,447	1,361,548	1,311,314	5,840,710	1,168,142	938,409	553,309
Gold in bullion and coin	788	234	369	133	12	1,537	307	201	387
Silver in bullion and coin	20,917	12,942	15,464	16,053	13,263	78,641	15,728	9,316	3,055
Totals	1,079,339	880,943	1,258,281	1,377,734	1,324,590	5,920,889	1,148,177	947,927	556,752

(*b*) *Foreign Indebtedness.*—Spain's only foreign debt was created in 1882. It amounts to 1,930,556,000 pesetas, divided into eight series under the letters "A" to "H," the interest rate being 4 per cent. per annum, free of all taxes and imposts, which in the case of other Spanish securities absorb about one-fifth of the interest. Both capital and interest were originally payable at the option of the holder in pesetas, sterling (at 25·20 to the £), francs (at par), and marks (at 1·235 pesetas per mark), but in 1901 Parliament deprived Spanish holders of these privileged securities of the right to demand payment of bonds or coupons in foreign currencies, and securities so held were converted into Interior Perpetual Debt, an allowance of 10 per cent. being made for exchange. The peseta then being normally at a discount, the restriction, even with the 10 per cent. allowance, was not necessarily one which would have been accepted on business grounds had the Spanish holder been given any option in the matter, but, owing to the marked improvement in the exchange value of the peseta since the outbreak of the War, the 10 per cent. allowance has become a pure bonus. By a Decree dated the 9th August, 1898, foreign holders of the remaining securities could only collect in London, Paris, or Berlin the moneys due to them for capital repayment or interest after an affidavit before an attorney to the effect that no person of Spanish nationality was interested in the securities in question.

Just after the outbreak of the War (on the 7th August, 1914), Spaniards were authorised to invest in the External Debt; but in cases where coupons were presented for payment in pesetas in Madrid, the corresponding securities were stamped as being domiciled in Spain, thus losing for the future the right to demand payment of the coupon in any foreign currency. The same provision was made to apply in the case of all securities negotiated on the Spanish markets. As a consequence of this arrangement, the proportion of the Spanish Debt held abroad has been greatly reduced, a good deal of the External Debt having now been domiciled

in Spain, while a considerable part of the balance has been converted into the Interior Debt, subject to the bonus of 10 per cent.

The amount of the Spanish External Debt outstanding on the 17th September, 1919, was 910,769,500 pesetas (nominal), of which the greater portion, 561,170,200 pesetas, was domiciled in Spain and 349,599,300 pesetas abroad. The rest of the issue, some 1,055,000,000 pesetas (nominal), has been converted into Internal Debt. The present amount of Spain's Foreign Debt is doubtless less than the amount which stands in her favour as a result of the financial transactions entered into during the War, but to the former figure there has to be added the capital of foreign origin invested in business in Spain (particularly in railways and in mines), which, although not in the ordinary sense of the word a foreign-held debt of Spain, has the same effect of leading to a periodical demand for remittances from the country.

(c) *Inflation.*—As has been shown, the note circulation in Spain has increased enormously during the past five years and there has been a more or less corresponding advance in commodity prices. This inflation is doubtless partly due to the grant of foreign credits.

(d) *Financial Position and Outlook.*—The general economic situation of Spain improved very materially during the War period, but it is not anticipated that it will be possible to maintain the high national income which has been drawn from the increased exports, from marine freights and from the interest on loans made to the belligerent nations. On the other hand, there should be no question of reverting to the precarious condition in which the country was previously situated, and in one respect, at any rate, Spain's advantage is unquestionable, for, owing to the great reduction which has been effected in the amount of the foreign-held debt, the quarterly payments of the coupons abroad will not in the future lead to the periodical flurries in exchange which before the War were constant. Apart

from this, the manufacturing capacity of Spain has greatly increased during the past five years and a substantial proportion of the goods previously imported is now produced internally. From an ordinary exchange standpoint, therefore, Spain's present advantage should be maintained for a long time to come, but internal financial conditions are hardly so favourable. The national budgets still close with an increasing deficit and the Public Debt grows, though it must be admitted that the annual deficiencies of from 500,000,000 pesetas to 600,000,000 pesetas appear small beside those of some of the belligerent nations.

(*e*) *The Political Position and Outlook.*—In Spain Governments change with great frequency and rapidity, and no political party and no social class enjoys power long enough to predominate over other parties and classes or to impose its views upon the public order. Labour and social conflicts are matters of constant occurrence, but these and national politics generally are a negligible factor on the Madrid, Bilbao and Barcelona exchanges, and this fact is a good index of their international importance.

CHAPTER XI.

Sweden.

Summary.

No new forms of currency have been issued in Sweden during the War, but banking credit has been freely used to finance the Government and foreign importers of Swedish goods. Moreover, increased taxation probably forced taxpayers to resort to the banks for loans. This credit inflation was necessarily accompanied by an increase in the note issue of the Bank of Sweden and by a rise in the price level of commodities. The index numbers of prices in Sweden have risen more than those of almost any other country not excluding the European belligerents, but the foreign exchange value of Swedish currency is still higher than might be expected from the internal commodity price level as shown in these index numbers.

The acceptability of bank notes has never been impaired, and the discount on Swedish currency abroad, where it exists, is not such as to cause great anxiety.

During the War the Government prohibited the export of gold and also suspended the free coinage of gold, releasing the Bank of Sweden from the obligation to purchase gold at a fixed price.

1. The Currency and Banking System before the War.

The monetary standard in Sweden before the War was gold. Gold, however, did not circulate as a means of payment to any extent. The circulation consisted in practice (apart from subsidiary token coinage) of Riksbank notes, which were payable in gold and were legal tender to any amount. The Swedish State Bank ('Svenska Riksbanken') was the only bank of issue in Sweden, and was given the monopoly of note issue in 1904.

By the terms of the Scandinavian Monetary Union of 1873, the standard and subsidiary coins of Sweden are legal tender in Denmark and Norway to the same extent as in Sweden, and *vice versa.* No limit was fixed to the amount of subsidiary money that may be coined by any member of the Union, but each member is bound to redeem in gold at their nominal value any of its own coins that may be presented to it by the Exchequer of another member.

This resulted before the War in a free flow of coinage between the Scandinavian countries, and even bank notes were accepted at par in all three countries, although this was not stipulated in the terms of the Union.

2. The use made of Currency and Banking Credit to Finance the Government during the War and its effects on the Currency Position.

No currency notes have been issued by the Government during the War.

Banking credit has been freely used to finance the Government, and there can be no doubt that this has contributed to the inflation of the currency. On the 23rd September, 1919, advances made to the State by 23 private banks amounted to 301,500,000 kr. In addition to this banking credit, the State had a floating debt in Treasury Bills of about 70 million kr.

3. Statistics.

(*a*) *Gold and Silver Holdings.*—Gold and silver holdings of the State Bank :—

——	30.6.1914.	30.6.1919.
	Kronor.	Kronor.
Gold coins, legal tender	57,832,935	97,177,935
Other gold coins and bullion ...	47,596,869	191,749,793
Total	105,429,804	288,927,728

(*b*) *Circulation of Bank Notes.*—

—	30.6.1914.	30.6.1919.
	Kronor.	Kronor.
Notes outstanding	238,971,300	727,949,631

No silver cover is held by the bank and no gold or silver reserves are held by the Government as distinct from the bank.

(*c*) *Gold and silver coin in the hands of the public.*—Practically no gold coins are in the hands of the public, and no silver except subsidiary coins, amounting probably to less than 40 million kr. nominal value.

(*d*) *Bank Deposits in all Swedish Banks.*—

—	30.6.1914.	30.6.1919.
	Kronor.	Kronor.
Current accounts...	260,160,775	1,269,900,272
Deposit accounts...	1,568,775,657	3,703,971,783

(*e*) *Exchanges.*—

—	Par.	30.6.1914.	30.6.1919.	19.12.1919.
London	18.159	18.25	17.95	17.86
New York	3.75	3.76	3.91	4.77

4. The System of Currency and Banking at present in Operation.

(*a*) *Permanent Alterations in the Pre-War System.*—In February, 1916, the free coinage of gold was suspended and the Riksbank was released from the obligation to purchase gold at a fixed price of 2,480 kr. for

1 kg. of gold. The price offered by the Riksbank varied, but less than the par value in paper was generally given for gold, that is to say, gold sold at a discount as compared with paper. The export of gold was also prohibited during the War. It is an open question whether these restrictions will be maintained.

(*b*) *The Convertibility and Acceptability of Currency and Bank Notes.*—The convertibility of notes was suspended from the 3rd August, 1914, to the 1st January, 1916. It has now been restored. The acceptability of bank notes has never been impaired.

(*c*) *and* (*d*) *Official Support and Control of Foreign Exchanges.*—There has been no official control or support of exchange.

(*e*) *Forms of Currency in actual use.*—For the time being Danish and Norwegian bank notes are at a discount in Sweden. Practically nothing but Swedish money at present circulates in Sweden, the export of gold coin and bullion from Denmark and Norway being prohibited.

(*f*) *Hoarding.*—There is no hoarding of metallic or note currencies. Notes were hoarded during the first months of the War, but it may be taken as certain that by the middle of 1915 practically the whole amount of bank notes stated by the statistics to be in circulation was actually in active use.

(*g*) *Barter.*—Trade with Germany has to some extent been conducted by barter.

(*h*) *Pending Currency Changes.*—The rising value of silver and copper in relation to gold, and the consequent danger of the subsidiary coinage being melted down, may lead to a reform of token money.

5. Factors affecting the Exchange Position.

Professor Gustav Cassel regards the increased note circulation in Sweden as being real inflation of the currency, and attributes it to :—

(i) Credits given to foreign countries during the War for the sake of preserving Swedish export trade.

(ii) Government borrowing; and

(iii) Increased taxation, which was too heavy to be paid out of the liquid funds of the taxpayer, who was, therefore, obliged to resort to the banks or to sell securities to buyers who borrowed the purchase money from their banks.

Both (ii) and (iii) were the necessary result of the Government policy of subsidies to reduce the cost of living: and the resulting inflation was not greatly mitigated, in the opinion of Professor Cassel, by the high discount rates ruling in Sweden after the middle of 1916. Taking into account the growth of the population, Professor Cassel calculates that the note circulation was in December, 1918, 350 per cent. of what would have been normal if there had been no war. From this time the note issue was contracted, and in August, 1919, it stood at 317 per cent. of what would have been the normal. Index numbers of prices—of which there are two series for Sweden, that of the Socialstyrelsen and that of the Svensk Handestidning—stood in December, 1918, at about 375. Professor Cassel, therefore, attributes 25 points in this number to shortage in the supply of commodities, and the remainder to currency inflation. During 1919 wholesale prices declined more quickly than retail prices, and in August of that year they stood relatively on the same level as the note circulation (say, 320 per cent. of normal).

Professor Cassel concludes that the intrinsic value of Swedish kronor as a purchasing power has been more seriously diminished than that of the dollar or the pound sterling. This diminution, he thinks, is not adequately reflected in the rates of exchange, because of the limitations imposed on Swedish import trade. He estimates that the purchasing power parity of £1 sterling at the end of September, 1919, as 22.30 kr. and of marks roughly 45 öre.

6. The effect of Depreciated and Fluctuating Exchanges upon International Trade.

These deviations of exchange rates from the true purchasing power parity of the different currencies affect commerce, whereas a mere change in the purchasing power parity of the two countries would have no such effect. For example, the fact that when the purchasing power of £1 sterling would be properly represented by 22·30 kr., the actual rate of exchange is about 17·20 kr., acts as a stimulus to Swedish imports from England, though it arises out of a limitation of exports from England to Sweden.

Professor Cassel also regards it as consequently disadvantageous to Sweden to grant Swedish currency loans to foreign countries so long as the Swedish crown stands in exchange above its purchasing power parity, or to raise foreign currency loans in countries where (as in the United States of America) the exchange rate is below the purchasing power parity, even though it may stand above the old par. Sooner or later, he thinks, exchanges will adjust themselves not to the pre-War parity, but to a new purchasing power parity of the different depreciated currencies. That is to say, instead of 320 kr. having, as now, the purchasing power of 100 kr. before the War, inflation must be reduced until about 200 kr. have that power, just as about 200 dollars have the purchasing power in the United States of America of 100 pre-War dollars.

CHAPTER XII.

Switzerland.

Summary.

Although the expansion of note issues and credit has not been as great in Switzerland as in most other European countries, the War has brought problems in currency and exchange more acute than any that have been known before. Several new kinds of notes and coin have had to be issued, prices have risen as much as elsewhere, and the greatest difficulties have been experienced on account of the collapse in the exchanges of all the neighbouring countries. Swiss currency has stood at a premium even over United States dollars, and the inconveniences of an appreciating currency have been scarcely less than those of depreciation, especially as Switzerland, on account of her central position geographically, has tended to be the dumping ground for all kinds of foreign values. Attempts to overcome these difficulties by means of barter have not been altogether successful, and the most harassing anomalies are continually having to be met by special regulations and frontier control.

1. The Currency and Banking System before the War.

Switzerland, with France, Belgium, Italy and Greece, is a member of the Latin Monetary Union, so that both gold and silver—in the form of 5-fr. pieces—are legal tender to any amount. Dr. A. Meyer, of Zurich, estimated (in the Schweizerische Jahrbuch) that the total circulation before the War comprised :—

	Millions of francs.	
Issued—		
Bank notes	268	
Gold	280	
5-fr. pieces	70	
Subsidiary coin..	15	
Total outstanding		633
Less—		
Gold held by the National Bank	180	
Silver held by the National Bank	19	
		199
Total in circulation		434

for a population of something over 4 millions.

The Swiss National Bank enjoys the exclusive privilege of issuing bank notes. This bank is organised as a joint stock company of which all the shareholders must be Swiss citizens or corporations domiciled in Switzerland. It began operations in 1907 with an authorised capital of 50 million fr., half paid up, and its monopoly of note issue extends until 1937 without renewal. Until the middle of 1918 the bank was required to maintain cover in specie or gold coin to the extent of 40 per cent. of its note issues, the remaining 60 per cent. being covered by trade and bank bills acquired at home or abroad.

The object of the Swiss National Bank is defined to be the regulation of the money market and the maintenance of a sound currency. Its activities are in the main restricted to the :—

Issue of bank notes.

Discounting of bills bearing at least two approved signatures, and having a currency of not more than three months.

Purchase and sale of foreign bills and cheques.

Advances on approved securities for a period of not more than three months.

Issue of gold and silver certificates.

The Bank is required to hold special reserves sufficient at any time to cover all engagements maturing within 10 days.

Apart from the Federal State Bank, there are in Switzerland Cantonal Banks, governed by Cantonal laws as well as by the Federal 'Code des Obligations.' These banks are the State banks of their respective cantons, whose direct property they usually are. Their activity is as a rule confined within the limits of their Canton and devoted for the most part to mortgage business. In December, 1907, they formed a union (Union des Banques Cantonales Suisses) in order to be able to operate on a larger scale. The development of these banks has been hampered by local custom and legislation. There is now a movement on foot for the establishment of a federal mortgage institution.

The most powerful group of banks is the Association of Commercial Banks known as the Cartel des Banques Suisses. Their main purpose is the financing of industry and trade, and their Association usually makes itself responsible for the issue of Government loans.

In the last few years a considerable number of Trust Banks have been established, many of them working in close connection with the leading commercial banks, and taking charge of their interests in industrial or commercial undertakings.

The statistics periodically published by the Swiss National Bank embody for 1917 the reports of 318 different banks. According to the Registre du Commerce, there were, however, in the same year 351 registered banking businesses with an aggregate share capital of 1,511 million fr.

2. The use made of Currency and Banking Credit to Finance the Government during the War, and its effects on the Currency Position.

The special War expenditure of Switzerland arose out of the mobilisation of the Army and the control of imports of food and raw materials. To finance this expenditure the Government discounted bills with the National Bank as follows :—

(000's omitted.)

Year.	Total Discounted.	Rediscounted in the open market.	In circulation at the end of the year.	Of which held by the National Bank.
Treasury Bills of the Federal Government.				
	Francs.	Francs.	Francs.	Francs.
1914 ...	117,000	1,500	56,000	55,000
1915 ...	375,000	171,540	90,500	54,300
1916 ...	828,700	519,110	222,500	88,280
1917 ...	1,171,300	838,550	314,400	165,070
1918 ...	1,529,000	1,006,170	352,000	223,270
Bills of the Federal Railways.				
1914 ...	7,000	—	3,500	3,500
1915 ...	69,000	—	21,000	21,000
1916 ...	125,000	—	35,000	35,000
1917 ...	220,500	41,860	68,000	68,000
1918 ...	433,550	287,430	140,000	88,860

It appears from the report of the Swiss National Bank for 1918 that Treasury Bills discounted during the year amounted in value to 95 per cent. of all bills discounted by the Central Board (apart from its agencies).

On the 9th September, 1914, the Federal Council decided to create a special credit organisation, the Caisse de Prêts de la Confédération Suisse, operated by the National Bank. The Caisse was empowered to pro-

cure the necessary funds for its advances by the issue of special certificates for 25 fr. which were made legal tender. The amount to be issued was limited at first to 50 million fr., later to 100 million fr. Within this maximum limit certificates, unless covered by coin or legal tender, might be issued to an amount not exceeding the total of loans granted to customers. No provision is made for the convertibility of certificates and they can be included in the 60 per cent. paper cover of National Bank notes. During the latter part of the War the Caisse did not put any of their certificates into circulation, but obtained funds by depositing the certificates with the National Bank. The total circulation at various times is shown in the table below. Loans are granted against bills of a currency of one to three months secured by the deposit of debentures, shares, savings books, mortgage bonds and raw products. The interest charged is somewhat lower than the official bank rate. The nominal value of the certificates issued was as follows :—

—	Nominal Value of the total issued.	Of which—	
		Held by National Bank.	In circulation.
On	Francs.	Francs.	Francs.
31st October, 1914 ...	5,640,925	5,640,925	—
31st December, 1914 ...	37,608,300	29,345,025	8,263,275
„ 1915 ...	52,970,225	17,103,150	35,867,075
„ 1916 ...	27,256,025	2,483,575	24,772,450
„ 1917 ...	20,464,575	12,673,950	7,990,625
„ 1918 ...	30,052,925	9,765,475	20,287,450
30th August, 1919 ...	22,940,625	8,405,150	14,535,475

The report for the 30th June, 1918, shows that the banks are the best customers of the Caisse and have taken more than 80 per cent. of the total advances which

on the 30th June, 1918, amounted to about 30,000 million fr. As to the nature of the securities, mortgages contribute the greatest proportion, because the disorganisation of the mortgage market during the War put a considerable strain on several small banks. The Caisse de Prêts has never been asked to contribute to any appreciable extent to the Federal Mobilisation Loans. As soon as conditions are again normal the Federal Council will order the liquidation of the Caisse.

3. Statistics.

(*a*) *Gold and Silver Holdings.* (*b*) *Circulation of Currency Issues and Bank Notes.*—The Swiss Government holds no metallic reserves. The metallic reserves of the Swiss National Bank and the value of notes in circulation were as follows :—

	Gold.	Silver.	Notes.
	Francs.	Francs.	Francs.
31st July, 1914 ...	191,891,479	5,941,935	409,266,010
31st July, 1919 ...	467,649,727	67,789,110	909,994,860

(*c*) *Estimated amount of Gold and Silver Coin and Bank Notes in the hands of the Public.*—

(Millions of francs.)

—	1914.	1917.
Bank notes	268	536
Gold	100	20
Silver 5-fr. pieces	51	18
Subsidiary coin	15	15
Total	434	589

In addition to these amounts actually circulating, it is estimated that some 30 million fr. of currency were in hoarding in 1917.

(*d*) *Bank Deposits.*—

—	1914.	1917.
	Francs.	Francs.
Swiss National Bank ...	70,811,000	139,700,000
Other banks...	7,857,791,000	9,937,212,000

(*e*) *Exchange Rates.*—

—	Par.	30th June, 1914.	30th June, 1919.	19th Dec., 1919.
New York	5.1826	5.15	5.41	5.56
London	25.2215	25.19	25.07½	20.60

4. The System of Currency and Banking at present in Operation.

(*a*) *Permanent Alterations in the Pre-War System.*—The currency and banking system of Switzerland has not been radically or permanently changed during the War. In the latter half of 1918 the Federal Government was given power :—

(i) To reduce the gold and specie held by the National Bank against their note issue from 40 per cent. to 33⅓ per cent.

(ii) To include in the 60 per cent. of cover which may consist of trade and bank bills—

(*a*) Credits held with banks abroad repayable on demand.

(*b*) Advances on securities maturing within 10 days.

On the 30th July, 1914, notes of the Swiss National Bank were declared legal tender, and convertibility was suspended.

The scarcity of small change made it necessary for the Government to issue Treasury notes to the amount of 30 million fr. in denominations of 5, 10, and 20 fr. These notes were legal tender and have been for the most part withdrawn. At the end of 1918 the amount in the hands of the public was only 148,630 fr.

The notes of the Caisse des Prêts were also declared inconvertible legal tender. National Bank notes, of which the smallest denomination before the War was 50 fr., were issued during the War for 5, 10, 20, 25, and 40 fr. The 5-fr. notes have now been withdrawn. The remainder are issued subject to the same conditions as the original National Bank notes for 50 fr. or more.

In view of the inability of the Federal Mint to obtain nickel for coining 5 and 10 centimes pieces, the Federal Council authorized the Mint to put into circulation 2 million pieces of 10 c. and 3 million pieces of 5 c. in brass.

It was declared illegal to deal in coins of the Latin Monetary Union or in foreign gold coins at prices other than their nominal value. The melting of gold coins of any description, silver coins of the Latin Union or Swiss nickel, copper or brass coins, was also forbidden.

The export of Swiss notes and the import into Switzerland of certain foreign bank notes was prohibited.

(*b*) *Convertibility and Acceptability of Currency and Bank Notes.*—The acceptability of all forms of Swiss currency has never been questioned.

(*c*) *Official Control of Foreign Exchanges.*—There has been no direct interference of the Government with free dealings in foreign exchange as such; but the liberty of the market has been restricted by war-time regulations imposed for other purposes than the control of exchange, and by difficulties of communication.

(*d*) *Official Support of Foreign Exchanges.*—The Swiss exchange has never been officially supported by the

Government. But a loan of 15 million dollars (now reduced to 5 million dollars) was floated in the United States in March, 1915, and a second loan of 30 million dollars was issued in 1919.

Other countries secured exchange credits in Switzerland to support their currency. The aggregate total of these credits amounts to 400 million fr. A syndicate—the Société Financière Suisse of Lucerne—was formed to finance loans to the Allies amounting to 122,750,000 fr. for France and 84,460,000 fr. for England, of which 10,000,000 fr. have already been repaid. Credits were also granted to Belgium and Italy.

Advances to Germany in exchange for deliveries of coal were made by the Centrale des Charbons which is now in liquidation. The total of these advances reached 155,200,000 fr.

(e) *Forms of Currency in actual use.*—The only foreign coins circulating in Switzerland are the gold coins and 5 fr. pieces of the Latin Monetary Union, and the silver pieces of 2 fr., 1 fr. and 50 c. of France and Belgium.

(*f*) *Hoarding.*—Hoarding of coin and notes has varied considerably. At the outbreak of War and again during the general strike of November, 1918, the amounts hoarded may have reached 100 million frs.

(*g*) *Barter.*—There has been no barter in internal trade, but the depreciation of currencies in Eastern and North Eastern Europe has led Swiss traders to exchange manufactured articles against raw materials from abroad. For this purpose the 'Centrale des Exportations' was formed; but the company experienced great difficulty on account of the scarcity of goods suitable for exchange against Swiss products.

(*h*) *Pending Currency Changes.*—Schemes for reducing the paper currency are now being considered by the Federal Government and the National Bank.

5. Factors affecting the Exchange Position.

(*a*) *Balance of Trade.*—In 1916 Swiss exports exceeded imports by about 69 million fr. With this exception the

balance of visible trade has always been adverse to Switzerland. The annual statistics are as follows :—

—	Total Imports.	Total Exports.	Balance of Trade.
	Francs.	Francs.	Francs.
1913 ...	1,919,816,000	1,376,399,000	–543,417,000
1914 ...	1,478,408,000	1,186,887,000	–291,521,000
1915 ...	1,680,030,000	1,670,058,000	– 69,972,000
1916 ...	2,378,505,000	2,447,715,000	+ 69,210,000
1917 ...	2,405,144,000	2,322,953,000	– 82,191,000
1918 ...	2,401,463,000	1,963,171,000	–438,291,000

(*b*) *Foreign Indebtedness.*—During the war Switzerland liquidated a great part of her American, Scandinavian and Dutch securities. On the other hand, the majority of Swiss securities held abroad were repatriated, to an amount which is sometimes estimated at from 700 to 800 million fr. The only country which is still said to hold Swiss securities to an appreciable extent is France.

(*c*) *Inflation.*—The Federal Council discussed the problem of currency depreciation in a report presented to the Federal Assembly under date 20th May, 1919. The report, while pointing out that the expansion of note issues and credit is not as great in Switzerland as in most other countries, does not on this account rule out the possibility of inflation.

(*d*) *and* (*e*) *Uncertainty as to the financial and political position* of Switzerland does not affect the Swiss exchange.

6. The Effect of Depreciated and Fluctuating Exchanges upon International Trade.

The geographical position of Switzerland makes the country a natural and important centre for the distribution of goods to her impoverished neighbours; but it has the disadvantage of increasing her reliance

upon the export trade to foreign markets, especially as manufacturers cannot fall back upon a large home market of their own. It is, therefore, of vital importance to Switzerland that she should be able to import raw materials from the West and distribute goods to continental Europe, and her exchange market is particularly sensitive to the commercial and financial situation elsewhere. Swiss currency is at a discount in the United States and a few other countries to which Switzerland at the present time has to look for her supply of raw materials. The resulting increase in the cost of these materials adds to the difficulties of trade. In most of continental Europe the currencies are greatly depreciated, and the ability to purchase abroad very small, so that Switzerland's market for exports is at present a poor one.

CHAPTER XIII.

United Kingdom.

SUMMARY.

British currency before the War consisted in part of Bank notes, but chiefly of gold and silver coinage. Gold has now been replaced in circulation by currency notes issued by the Government; but in other respects the forms of currency in actual use have not been changed.

The amount of currency in circulation is perhaps three times what it was before the War. Bank deposits have been more than doubled since the outbreak of War. The general level of commodity prices has risen more than 100 per cent. during the same period. All leading authorities regard borrowing by the Government from the Banks as being largely responsible for these great increases in currency, bank deposits and commodity prices.

The legal convertibility of Bank of England notes and currency notes has not been cancelled, but it has in fact been rendered inoperative by certain practical obstacles and by legal prohibitions against melting down or exporting gold coin or using it for any purpose other than as currency. The paper currency has fallen in comparison with gold bullion to a discount which is approximately measureable by the premium on United States dollars in exchange, since dollars are convertible in New York, which is practically a free market for gold. At one time, in February, 1920, sterling was quoted at a figure which represents only 67 per cent. of its New York parity. The acceptability of currency notes and Bank of England notes in Great Britain has never been impaired.

There is no expectation of any sweeping currency reforms in the United Kingdom, and the tendency has been to revert gradually towards pre-war conditions.

The Chancellor of the Exchequer has announced that Government borrowing may be expected to reach its maximum in January, 1920, and the fiduciary issue of currency notes has been limited for 1920 to the actual maximum of 1919 previous to 15th December.

1.—The Currency and Banking System before the War.

Before the War, the British currency consisted of Bank of England and certain other bank notes, gold coins for 20*s*. and 10*s*., and subsidiary silver and copper coinage. Bank of England notes, which were convertible on demand into gold, and the gold coins themselves, were legal tender to any amount. Silver coins were legal tender up to £2, and copper coins up to 1*s*. The note issues of the Scotch and Irish banks were considerable, but those of the English banks other than the Bank of England, had fallen to an almost negligible amount. Bank of England notes were backed by British Government securities to the extent of £18,450,000, but above that point for every note issued the Bank of England held against its notes gold coin or bullion equivalent to their full face value. Legally, the Bank was entitled to hold one-fifth of the metallic backing of its notes in silver, but this power was not exercised. Thus, if any increase in legal tender currency was required by the nation's trade, it could only be provided—apart from the subsidiary silver and copper coinage—by increasing, through imports, the amount of gold in the country. This system was often criticised as being rigid and inelastic, as indeed it might have been, but for the fact that the commercial transactions of the country, apart from small retail purchases, were for the most part carried on by means of cheques drawn by the customers of the English banks upon them. In Ireland and Scotland, the note issues of the banks were a rather more important feature of the currency, but on the whole, it may be said that the working currency of the United Kingdom before

the War was the cheque. Cheques could be drawn and credits granted by the banks without any legal restrictions as to amount, and so, in spite of its apparent rigidness, the system worked in ordinary times with extraordinary ease and elasticity. This was largely owing to the convention by which the other banks regarded "cash" at the Bank of England (in the sense of credits at the Bank of England available on demand) as being in no way inferior to legal tender cash in hand, at least for purposes of reserve and for display in balance sheets. "Cash" at the Bank of England could be increased at any time without any other limit than the willingness of the Bank of England to make advances. It was not the custom for the banks to borrow directly from the Bank of England, but if at any time they wished to increase their cash resources, they were enabled to do so by calling in loans from the London discount houses and bill brokers, who were thus forced to borrow from the Bank of England. The credits so raised were added to the cash at the Bank of England held by the other banks. By this means, the expansion in cash requirements at the end of the half-years—in so far as it was caused by the need for display in balance-sheets—was very easily met by creations of credit at the Bank of England. No restrictions of any kind were placed on exports of gold, but they were to some extent regulated by the Bank of England raising its rate of discount at times when gold exports were proceeding at a more rapid rate than the Bank considered prudent, or when the tendency of the foreign exchanges caused apprehensions of such exports.

2.—The Use made of Currency Issues and Banking Credit by the Government during the War and its Effect on the Currency Situation.

When the war came, it was found that this system, which had worked so easily in normal times, was not without defects in the face of a cataclysm. One defect

was the high denomination (£5) of the smallest Bank of England notes, which made them inconvenient for purposes of small transactions and useless for the payment of wages. When, at the beginning of the war, the British public showed an inclination to take care of its own money, instead of leaving it at its banks, there is no doubt that it would have taken £1 Bank of England notes quite as readily as sovereigns. Notes of this denomination, however, were not to be had, and their place was supplied by the issue of currency notes, which were made legal tender, and have been current ever since. At the same time, power was taken to suspend the limit on the fiduciary issue of Bank of England notes. As will be seen from the statistical table given below, there has been a very great increase in the note circulation in Great Britain during the war period. By the end of 1918 the Bank of England note issue had risen by over 40 millions, and currency notes had been issued to the extent of over 323 millions. This increase in the demand for legal tender currency was largely due to the enormous increase in the deposits of the banks, as shown below; and this, in turn, was chiefly caused by the advances made directly or indirectly by the banks to the Government for the purpose of financing the war. The total of the investments, as distinguished from bills, loans and advances, shown in the balance sheets of the banks of the United Kingdom has increased from 211 millions in 1913 to 510 millions in 1918. This increase of some 300 millions is accounted for by the direct subscriptions of the banks to War Loans. The Treasury Bills outstanding in December, 1918, amounted to about 1,100 millions. The banks do not all show their holdings of bills separately in their balance sheets, but, so far as they do, the amount grew from 122 millions in 1913 to 421 millions in 1918. In all probability the whole increase was in Treasury Bills. The foregoing figures do not include the numerous banks with head offices in London, whose business is mainly abroad, though they undoubtedly took a share in both War Loans and Bills.

The securities held by the Government in the currency notes account amounted on the 31st December, 1918, to 305 millions.

Government securities held by the Bank of England on the 25th December, 1918, amounted to 71 millions, as compared with 13 millions in 1913. The Bank of England also undertook to borrow surplus balances in London and lent the sums so borrowed to the Government under the heading of Ways and Means advances, a higher rate of interest being paid on foreign balances. The sums so borrowed and lent amounted to a very considerable figure, the aggregate of Ways and Means advances by the Bank of England amounting in March, 1919, to 228½ millions. This arrangement ceased as regards home balances in July, 1919, and as regards foreign balances in November, 1919.

At the present time (31st March, 1920), the Ways and Means advances by the Bank of England have for the time being been paid off, and Treasury Bills stand at 1,107 millions.

In December, 1919, the Final Report of Lord Cunliffe's Committee on Currency and Foreign Exchanges was issued, and the Chancellor of the Exchequer, on December 16th, made a statement in the House of Commons to the effect that the recommendations in para. 8 of the Report would be accepted forthwith. The most important of these recommendations is that the fiduciary circulation of currency notes—that is, the amount of currency notes outstanding that are not covered by gold or Bank of England notes—shall be limited in any one year to the maximum fiduciary circulation of the previous year. For the year 1920 the maximum has been fixed at £320,600,000, which was the maximum reached in 1919 before the date when the Chancellor made his statement.

A further change made towards the close of the year 1919 concerned the note issue of Scottish and Irish banks. These notes had been made legal tender in Scotland and Ireland during the War. The privilege has now been withdrawn.

3.—Statistics.

—	June 30, 1914.	June 30, 1919.
Bullion and Specie—		
Bank of England	£40,083,000	£88,568,000
Currency Notes Account ...	—	£28,500,000
	£40,083,000	£117,068,000
Note Circulation—		
Bank of England	£29,784,000	£79,948,000
Currency Notes	—	£342,952,000
Scotch and Irish Banks of Issue	£4,326,000*	£5,270,000*
	£34,110,000	£428,170,000
Gold in the hands of the public	£123,000,000	—‖
Bank Deposits	£1,142,038,000†	£2,274,729,000†
Exchange on New York (par \$4·86⅔)	4·87⅝	4·60

4.—The Banking and Currency System at Present in Operation.

(*a*) *Permanent alterations of the pre-war System.*

How far the above-mentioned alterations in the pre-war system are permanent, it is impossible to say. The Currency and Bank Notes Act, 1914, though passed to meet an emergency was not in form a temporary Act.

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* Fiduciary portion of the note issue only. As the greater part of the reserves against the remainder consists of currency notes, the whole issue could not be included without causing duplication.

‖ No recent estimate of the gold in the hands of the public is available. But it has ceased to circulate, and the gold in the hands of the banks (other than the Bank of England) is estimated at £40,000,000.

† From the several balance sheets last before the date named.

(b) Convertibility.

The convertibility of currency and bank notes into gold coin is legally provided by the Currency and Bank Notes Act of 1914, but for several reasons it has not been fully operative. During the war there was a general understanding that it was unpatriotic to demand gold at the Bank of England in exchange either for Bank of England notes or for Treasury notes. The Bank of England assisted the Government by emphasising to the public the necessity of the substitution of notes for gold as domestic currency, and war conditions interposed effective obstacles against the remittance of gold abroad. The export of gold indeed was not prohibited during the war, since the expense of shipping gold, the difficulty of covering the risks of shipment by insurance and the patriotic restraint exercised by those who might have made an exchange profit made it unnecessary to do so. In the spring of 1919 an embargo was placed on the export of gold coin and bullion, under Section 1 of the Customs (Exportation Prohibition) Act, 1915. Towards the end of July, 1919, an arrangement was concluded with the Bank of England by which new gold, though it continues to come to London, may afterwards be exported under licence. This arrangement enables gold producers, while still continuing to send it to London, to sell their gold in the best market for their own profit. But, so far as currency and exchange are concerned, it does not limit the effects of the embargo on British gold exports.

Currency notes and Bank of England notes are legal tender to any amount, and the general public has accepted them with the utmost readiness.

(c) and (d) Official Control and Support of Foreign Exchanges.

Official control of dealings in foreign exchange and official support of the foreign exchanges are now at an end. On August 18th, 1919, the Treasury withdrew the restrictions applied in war time under Section 41D of the Defence of the Realm Act, and

from that date it has been permissible to remit money abroad for the purpose of subscribing to a loan or issue of capital outside the United Kingdom, and also to import securities or speculate in foreign exchange.

(e) *Forms of Currency in actual use.*

The principal change in the forms of currency in actual use within the country is the substitution of currency notes for £1 and 10*s*. for the sovereigns and half-sovereigns which were carried by the Briton in his pocket for ordinary retail purposes.

(*f*) *Hoarding.*

It is very difficult to say to what extent hoarding has been practised. From time to time cases come to light in which ignorant people have hoarded a large number of sovereigns in comparison with their means. It has been suggested that a certain amount of hoarding, both of Treasury notes and of Bank of England notes, has been brought about by fears that the Government might commandeer bank deposits, by attempts to conceal profits, and so evade the Excess Profits duty, and by apprehensions of a levy on capital. It is probable, however, that the amount of hoarding of paper money for any of these reasons in Great Britain is small, but there may well be an appreciable amount of gold still in hiding.

(*g*) *Barter.*

Trade, both internal and external, is generally being financed on the old lines, modified by the differences already mentioned. The trade with some countries, however, such as Russia, in which currency chaos is extreme, is being carried on to a considerable extent by barter, exporting merchants arranging for imports of goods needed in England, so that they may be able to receive payment for the goods that they send to Russia in sterling.

(*h*) *Pending Currency Changes.*

Legislation is now in course of passage through Parliament reducing the fineness of the silver coins from ·925 to ·500. With regard to any more comprehensive proposals, attention is directed to Reports of the Committee on Currency and Foreign Exchanges, referred to and partly reprinted below.

5.—Factors affecting the Foreign Exchange Situation.

(*a*) *Balance of Trade.*

Even after taking into consideration the change in the value of money, the trade balance of the United Kingdom is now appreciably more adverse in visible goods than it was before the war. Before the war imports of goods exceeded exports by about £150 millions. Against this there was believed to be a net excess of 'invisible' exports amounting to about £350 millions. Interest on foreign investments was estimated at about £200 millions, and the profits of the merchant navy, the commissions earned by bankers and finance houses, the premiums gathered abroad by insurance companies and similar dues accounted for the balance. Thus, taking visible and invisible trade together, the United Kingdom had an actual favourable balance of about £200 millions, which she was believed to be investing abroad. Her adverse balance in visible goods for the year 1919 amounted to £669 millions. The Board of Trade has recently estimated the net invisible exports as follows :—

	1919. £ mill.
Net income from investments ..	80
Net shipping income	400
Other services	40
Total	520

From this estimate it would appear that the favourable balance of about £200 millions has been changed into an adverse balance of nearly £150 millions. On the other hand, the Board of Trade is of the opinion that the invisible exports during 1920, as compared with 1919, will show an increase of £120 millions. If this estimate be correct, it is not unreasonable to suppose that there will be a real surplus of exports over imports during the current year.

(*b*) *Foreign Indebtedness.*

During the War the United Kingdom, according to the statement of the Chancellor of the Exchequer in the House of Commons on April 30th, 1919, borrowed £1,350,000,000 abroad. Her loans to her Allies and the Dominions amounted to about £1,700,000,000. She has in addition sold abroad a large amount of her foreign investments, those disposed of through the Dollar Securities Committee alone having exceeded £200,000,000. Interest is, however, not being paid at present to the United States for the debts contracted there, and only a small amount is being received on the loans made elsewhere, so that the balance of the foreign indebtedness arising out of the war has no appreciable effect on the current exchange position at the present time. The British position is to some extent less favourable than the figures of imports and exports would seem to indicate, since a large part of the exports is now necessarily made to countries which are only in a position to buy on credit, and such exports contribute nothing towards the balancing of the adverse trade account of the country.

(*c*) *Inflation.*

The extent of currency depreciation is indicated by the rise in wholesale prices during the war, which at the end of December, 1919, amounted, according to the *Economist* index number, to 173·5 per cent. This may be taken as a fair measure of the depreciation of currency in terms of goods, while the discount on

sterling which is expressed in the exchange on New York is perhaps the best indication of the fall in the gold value of the pound note. The exchanges of most of England's late allies and enemies are very strongly in her favour. The following adverse rates were quoted on December 23rd, 1919:—

		Par.
New York	3·84	4·86⅔
Madrid	19·92½	25·22½
Amsterdam	10·15	12·107
Switzerland	21·15	25·22½

(*d*) *Uncertainty as to the Financial and Political position.*

Uncertainty as to the United Kingdom's financial position or her political stability can hardly be said to be a factor affecting the foreign exchange situation.

6.—The Effect of Depreciated and Fluctuating Exchanges upon International Trade.

The effect of the exchange position on the international trade of the country may be summed up by saying that it tends to become expensive for the United Kingdom to buy goods in those countries which quote adverse exchanges, while her export trade with countries which quote favourable exchanges is hampered, in the first place by the difficulty of securing payment from possible customers, and in the second place by the temporary advantage which a depreciating currency gives to some foreign exporters competing in neutral markets. On the other hand, the demand for British goods of various kinds is now general from all parts of the world, and there is no doubt that there is a ready market for all the goods that the United Kingdom is in a position to produce and is able to transport to their destination.

7.—Proposals for Currency Reform and Improvement of the Exchange position.

With regard to the re-organisation of the currency and foreign exchange situation in the United Kingdom,

it is felt that the chief need is a reversal of the policy by which inflation of currency and credit has been produced. This policy, as has been shown, involved an extensive use of loans made by the banks directly or indirectly to the Government for the purposes of war finance. The reversal of this policy would thus mean that the Government would take, by taxation or by loans from real investors, more money than it has to spend on current expenditure, so that it may have a balance wherewith to pay off loans from the banks, thereby reducing the inflation of credit and the inflation of currency which necessarily accompanies it. An increase of production, resulting in the relation between commodities and currency being restored to a more normal position, would tend in the same direction. More technical recommendations for the restoration of the gold standard have been made by Lord Cunliffe's Committee on Currency and Foreign Exchanges. The summary of the conclusions contained in the Interim Report and the whole of the Final Report are reprinted below. The Government has already taken steps, referred to above, to give effect to some of the Committee's recommendations.

Interim Report of the Committee on Currency and Foreign Exchanges after the War.

SUMMARY OF CONCLUSIONS.

Our main conclusions may be briefly summarised as follows :—

Before the war the country possessed a complete and effective gold standard. The provisions of the Bank Act, 1844, operated automatically to correct unfavourable exchanges and to check undue expansions of credit.

During the war the conditions necessary to the maintenance of that standard have ceased to exist. The main cause has been the growth of credit due to Government borrowing from the Bank of England and other banks for war needs. The unlimited issue of currency notes has been both an inevitable consequence and a necessary condition of this growth of credit.

In our opinion it is imperative that after the war the conditions necessary to the maintenance of an effective gold standard should be restored without delay. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be grave danger of a progressive credit expansion which will result in a foreign drain of gold menacing the convertibility of our note issue and so jeopardising the international trade position of the country.

The pre-requisites for the restoration of an effective gold standard are :—

(*a*) The cessation of Government borrowing as soon as possible after the war. We recommend that at the earliest possible moment an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt.

(*b*) The recognised machinery, namely, the raising and making effective of the Bank of England discount rate, which before the war operated to check a foreign drain of gold and the speculative expansion of credit in this country, must be kept in working order. This necessity cannot, and should not, be evaded by any attempt to continue differential rates for home and foreign money after the war.

(*c*) The issue of fiduciary notes should, as soon as practicable, once more be limited by law, and the present arrangements under which deposits at the Bank of England may be exchanged for legal tender currency without affecting the reserve of the Banking Department should be terminated at the earliest possible moment. Subject to transitional arrangements as regards currency notes and to any special arrangements in regard to Scotland and Ireland which we may have to propose when we come to deal with the questions affecting those parts of the United Kingdom, we recommend that the Note Issue (except as regards existing private issues) should be entirely in the hands of the Bank of England. The notes should be payable in London only, and should be legal tender throughout the United Kingdom.

As regards the control of the Note Issue, we make the following observations :—

(1) While the obligation to pay both Bank of England notes and currency notes in gold on demand

should be maintained, it is not necessary or desirable that there should be any early resumption of the internal circulation of gold coin.

(2) While the import of gold should be free from all restrictions, it is convenient that the Bank of England should have cognisance of all gold exports, and we recommend that the export of gold coin or bullion should be subject to the condition that such coin and bullion has been obtained from the Bank for the purpose. The Bank should be under obligation to supply gold for export in exchange for its notes.

(3) In view of the withdrawal of gold from circulation we recommend that the gold reserves of the country should be held by one central institution, and that all banks should transfer any gold now held by them to the Bank of England.

Having carefully considered the various proposals which have been placed before us as regards the basis of the fiduciary note issue, we recommend that the principle of the Bank Charter Act, 1844, should be maintained, namely, that there should be a fixed fiduciary issue beyond which notes should only be issued in exchange for gold. The separation of the Issue and Banking Departments of the Bank of England should be maintained, and the Weekly Return should continue to be published in its present form.

We recommend, however, that provision for an emergency be made by the continuance in force, subject to the stringent safeguards recommended in the body of the Report, of Section 3 of the Currency and Bank Notes Act, 1914, under which the Bank of England may, with the consent of the Treasury, temporarily issue notes in excess of the legal limit.

We advocate the publication by the banks of a monthly statement in a prescribed form.

We have come to the conclusion that it is not practicable to fix any precise figure for the fiduciary note issue immediately after the war.

We think it desirable, therefore, to fix the amount which should be aimed at as the central gold reserve, leaving the fiduciary issue to be settled ultimately at such amount as can be kept in circulation without causing the central gold reserve to fall below the amount so fixed. We recommend that the normal minimum of the central gold reserve to be aimed at should be, in the first instance, £150 millions. Until this amount has been reached and maintained concurrently with a satisfactory foreign exchange position for at least a year, the policy of cautiously reducing the uncovered Note Issue should be followed. When reductions have been effected, the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements previously recommended. When the exchanges are working normally on the basis of a minimum reserve of £150,000,000, the position should again be reviewed in the light of the dimensions of the fiduciary issue as it then exists.

We do not recommend the transfer of the existing Currency Note Issue to the Bank of England until the future dimensions of the Fiduciary Issue have been ascertained. During the transitional period the issue should remain a Government issue, but new notes should be issued, not against Government securities, but against Bank of England notes, and, furthermore, when opportunity arises for providing cover for existing uncovered notes, Bank of England notes should be used for this purpose also. Demands for new currency would then fall in the normal way on the Banking Department of the Bank of England.

When the fiduciary portion of the issue has been reduced to an amount which experience shows to be consistent with the maintenance of a central gold reserve of £150 millions, the outstanding currency notes should be retired and replaced by Bank of England notes of low denomination in accordance with the detailed procedure which we describe.

Final Report of the Committee on Currency and Foreign Exchanges after the War.

1. We have the honour to present herewith our final Report on certain matters referred to us in January, 1918, with which we were not in a position to deal in our Interim Report in August of that year.

2. *Foreign Exchanges.*—We stated in the introduction to our Interim Report our opinion that a sound system of currency would in itself secure equilibrium in the Foreign Exchanges. We have reviewed the criticisms which have been made upon this part of our Report, but we see no reason to modify our opinion. We have found nothing in the experiences of the war to falsify the lessons of previous experience that the adoption of a currency not convertible at will into gold or other exportable coin is likely in practice to lead to overissue and so to destroy the measure of exchangeable value and cause a general rise in all prices and an adverse movement in the foreign exchanges.

3. The nominal convertibility of the currency note which has been sustained by the prohibition of the export of gold is of little value. The weakness of the exchanges is in a measure due to trade conditions, but an important cause of the depreciation in sterling in New York and other financial centres is, in our opinion, to be found in the expanded state of credit in this country. The existing expansion is not merely the legacy of the stress of war finance and Government borrowings, which even now have not ceased, but also, in part the result of maintaining rates for money in London below those ruling in other important financial centres. The difficulties of the Foreign Exchanges' position are aggravated by the grant of long term loans and credits, whether directly or under guarantee

or otherwise by the Government or by private lenders, to enable foreign States or their nationals to pay for exports from this country. Few of these loans and credits will be liquidated at an early date. The large payments which we have to make to America, North and South, for necessary imports of foodstuffs and raw materials from those countries make it essential that we, in our turn, should secure payment in cash for as large a proportion as possible of our exports, visible and invisible. We recommend therefore that preference should be given to exports to countries which are able to make payment in the ordinary course of trade.

Increased production, cessation of Government borrowings and decreased expenditure both by the Government and by each individual member of the nation are the first essentials to recovery. These must be associated with the restoration of the pre-war methods of controlling the currency and credit system of the country for the purpose of re-establishing at an early date a free market for gold in London.

4. *Bank of England.*—The principles of the Bank Charter Act of 1844 were fully considered by us in our Interim Report. We have examined with care the opinions there expressed in the light of certain criticisms which have been made with regard to them. We see, however, no reason to alter our conclusions. We have again considered the principles governing the banking systems of the principal foreign countries and we are satisfied that they are not so well adapted to the needs of this country as those contained in the Act of 1844. Certain important alterations which experience suggested to be desirable have been made in the constitution and management of the Bank during the war, and we do not now think it necessary to make any further recommendation.

5. *Government Borrowings on Ways and Means Advances from the Bank of England.*—We desire to draw attention to the extensive use made during the war of the system of Ways and Means Advances from the Bank of England. We referred to this matter in paragraph 16

of our Interim Report and explained its effect in causing credit and currency expansion. The powers given to the Government by Parliament to borrow from the Bank of England in the form of an overdraft on the credit of Ways and Means were, as the name implies, intended to enable the Government to anticipate receipts from Revenue or permanent borrowings for a brief period only. Indeed, Parliament by expressly providing that all such advances should be repaid in the quarter following that in which they were obtained showed that it had no intention of bestowing upon the Government the power of securing an overdraft of indefinite duration and amount. Under the exigencies of War finance the Government found it necessary to re-borrow in each quarter on the credit of Ways and Means the amount needed to enable them to comply with the statutory requirement that the previous quarter's Ways and Means Advances should be repaid, with the result that the total outstanding advances remained for a long time at a high figure. We are glad to see that efforts are now being made to reduce this overdraft to more moderate dimensions.

We, therefore, hope, now that conditions are less abnormal, that the Government will confine its use of Ways and Means and Advances from the Bank of England to providing for purely temporary necessities. Such advances afford a legitimate method of tiding over a few weeks' shortage, but are entirely unsuitable for borrowings over a longer period.

6. *Foreign Banks.*—Several of our witnesses have called attention to the conditions under which it is open to foreign banks to establish themselves in this country. We suggest that this is a matter which should receive the early attention of His Majesty's Government.

7. *Scottish and Irish Banks.*—We have now taken evidence in regard to the application of the recommendations in our Interim Report to Scotland and Ireland. The status of legal tender was given to the notes of the Scottish and Irish banks of issue as an emergency measure to tide over the period at the outbreak of war

when a serious shortage of currency was threatened, a condition of affairs which no longer obtains. Some of the witnesses on behalf of the Scottish and Irish banks showed a marked desire to retain the privilege of legal tender status for their notes. In our opinion the grant of legal tender status could not be given permanently to the notes of Scottish and Irish banks except under statutory conditions similar to those embodied in the Bank Act of 1844. The evidence before us indicates that rather than be subjected to such conditions the banks would prefer the restoration of the pre-war status. We accordingly recommend that the pre-war status be restored. We further recommend that when the position which we contemplate in our Interim Report is ultimately reached the cover held by the Scottish and Irish banks for their excess issue shall take the form of any legal tender at that time in existence.

8. *Currency Note Issue.*—We have considered whether steps should not be taken at an early date to impose limitations upon the fiduciary portion of the currency note issue with a view to the restoration of the normal arrangements under which demands for new currency operate to reduce the reserve in the Banking Department of the Bank of England. In view of the fact that demobilisation is approaching completion and that as we hope fresh Government borrowing will shortly cease, we consider that effect should now be given to the recommendation made in our Interim Report that the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements which we proposed in paragraph 33 of our Interim Report. The policy of placing Bank of England notes in the Currency Note Reserve as cover for the fiduciary portion of the issue as opportunity arises should, of course, be continued. We recommend further that the Treasury Minute made under Section 2 of the Currency and Bank Notes Act, 1914, providing for the issue of currency notes to Joint Stock Banks, which is in fact inoperative, should now be withdrawn.

PART II.—AMERICAN CONTINENT.

CHAPTER I.

Argentina, Chili, Uruguay.

SUMMARY.

None of these countries took an active part in the War and their respective Governments have not had to resort to credit inflation for financing their own requirements. At the same time, in each of these countries there has been some credit inflation arising from other causes. In Argentina and Uruguay it resulted from the methods adopted for granting loans to the Allied Governments. In all three countries commodity prices have risen.

In relation to New York the foreign exchange situation is now much the same as it was before the War; but European countries have some difficulty in finding sufficient exchange to pay for the exportable surplus of Argentina and Uruguay which they require.

Argentina.

1. The Currency and Banking System before the War.

After passing through many periods of difficulty, the currency of Argentina has for some years past been on a very stable and satisfactory basis. Up to the end of last century the currency conditions were most unstable, and indeed chaotic. The value of the notes fluctuated constantly and violently, and trade could only be carried on under the greatest difficulties.

For instance, in 1879 there was a premium on gold in Argentina of about 3,000 per cent., which three years later had been reduced to 2,400 per cent. In 1882 and 1884 there was a remarkable change in the position, the paper peso in these two years—for the first and only time on record—being on an absolute parity with gold. In 1891, in the crisis period, a premium of 287 per cent. was established on gold, and in 1902 the premium was 136 per cent. But the establishment of the Conversion Office in 1903 gave Argentina a stable currency which she still enjoys.

Under its constitution the Conversion Office undertook to issue currency notes against deposits of gold at the rate of 1 paper dollar (known as Moneda Legal) for every 44 c. gold. For the purpose of the note issue the gold coins of foreign countries are received by the Conversion Office at fixed parities.

The period of prosperity which the Argentine enjoyed in the years following upon the establishment of the Conversion Office and the steady accumulation of gold resulting from the favourable balance of trade, permitted the Conversion Office scheme to be established on a firm basis, and in the unfavourable years 1912–1913

Argentina was enabled to part with gold to the extent of many millions sterling without anxiety.

In August, 1914, on the declaration of war in Europe, the Argentine Government decreed that the Conversion Office should be closed as regards the issue of gold for notes, but should remain open for the issue of notes against gold deposits, the object being to prevent the exchange of paper for gold, particularly on the part of the large ignorant proportion of the community which would have resorted to hoarding.

Owing to the enormous demands for the products of the Argentine, which almost immediately developed as the result of the war, the Argentine exchange, which had depreciated slightly—although not to the same extent as the United States dollar in the first months of the War—reached a point which called for gold shipments, and in order to facilitate the movement of Argentine produce a Decree was promulgated authorising the issue by the Conversion Office of paper currency against deposits of gold in the Argentine Legations. Originally a charge of $\frac{1}{2}$ of 1 per cent. was made to cover the shipping expenses, but this charge was raised to 2 per cent. as the additional cost of shipment became apparent.

The heavy exports caused free use to be made of the permission to deposit gold at the legations, and the total of gold at the legations on the 30th June, 1918, was $117,434,000. This is a net figure arrived at after allowing for very considerable withdrawals. The bulk of the deposits was effected in London, but the facility to deposit in the other legations gave rise to very interesting international transactions, which do not, however, affect the present enquiry.

The banking system of Argentina has been modelled very largely on English lines; the chief constituent is the Banco de la Nacion Argentina (Bank of the Argentine Nation), which, as its name implies, is the State bank of the country.

The Banco Hipotecario Nacional also constitutes an important part of Argentina's financial system. It lends money on mortgages of land and obtains the

requisite funds by the sale of securities (Cedulas). On the 30th June, 1914, the amount of Cedulas outstanding was about $560,000,000 (paper). This total had been increased to 600,538,475 by the 30th June, 1919.

In addition to these local banks, there are a number of foreign banks. The British institutions, including the London River Plate Bank, British Bank of South America and the Anglo-South American Bank, are amongst the oldest established, and before the war German institutions had also gained a footing in the country. The activities of these latter have been greatly curtailed, and their place has been filled partly by the British institutions and partly by American banks, which have made strenuous efforts to capture South American business during the War period.

2. The use made of Currency and Banking Credit to Finance the Government during the War and its effects on the Currency Position.

The Argentine Government draws its revenue largely from import duties and the national revenue consequently suffered when shipments to the country were drastically curtailed during the War. Budget deficits have been substantial and persistent. Taxation has been increased from time to time to meet these deficits, but in the main they have been met by an addition to the floating debt, considerable amounts having been borrowed on short terms from the Banco de la Nacion, and from other banking institutions operating in the country.

During the later months of the war the European Allies had great difficulty in providing sufficient funds in Argentina to pay for the exportable surplus of cereals, and as Argentina wished to sell this surplus towards the end of 1918 a credit of $200,000,000 gold was arranged in favour of England and France and was utilised for the purchase and shipment of grain. As the requisite funds were provided entirely by the Banco de la Nacion and the Allied banks operating in the country, the

operation necessarily resulted in credit inflation. Negotiations have been in progress during 1919 for the repetition of this operation.

3. Statistics.

(*a*) *Gold and Silver Holdings.*—The following table shows the cash position of the Banco de la Nacion and the other banks operating in Argentina on the 30th June, 1914, and the 30th June, 1919:—

Cash.

—	30th June, 1914.		30th June, 1919.	
	Gold.	Paper.	Gold.	Paper.
	Dollars.	Dollars.	Dollars.	Dollars.
Banco de la Nacion	42,000,000	183,000,000	36,036,484	309,271,166
Other banks ...	30,000,000	265,000,000	17,812,939	520,186,070
Grand total ...	72,000,000	448,000,000	53,849,423	829,457,236

(*b*) *Circulation of Currency Issues and Bank Notes.*—On the 30th June, 1914, the statement of the Conversion Office showed issues of notes and subsidiary coinage amounting to \$777,000,000. Against this there were held in the Issue Office and at the legations gold and gold bonds to the amount of \$213,000,000, equivalent in paper to \$484,090,000. The proportion of gold to the total issue was 62·3 per cent.

On the 30th June, 1919, the position of the Conversion Office was as follows:—Notes issued, nickel and copper coins, \$1,163,944,679; against which the gold held in the Issue Office and at the legations was \$383,207,637, which is equivalent to \$870,926,000 (paper), or 74¾ per cent. of the total issue.

(*c*) *Estimate of Gold and Silver in the hands of the Public.*—Specie payments having been suspended since the commencement of the war, the amount of gold and silver in the hands of the public is probably quite small.

(*d*) *Bank Deposits.*—The following table shows the position of the Banco de la Nacion and the other leading banks of the country as regards deposits :—

DEPOSITS.

—	30th June, 1914.		30th June, 1919.	
	Gold.	Paper.	Gold.	Paper.
	Dollars.	Dollars.	Dollars.	Dollars.
Banco de la Nacion.	16,000,000	522,000,000	3,139,622	1,193,996,056
Other banks	25,000,000	813,000,000	7,580,578	1,664,005,906
Grand total...	41,000,000	1,335,000,000	10,720,200	2,858,001,962

(*e*) *Exchange Rates.*—The following table shows the position of exchange before the War and at the 30th June, 1919 :—

—	Par.	30th June, 1914.	30th June, 1919.
London	47·619*d.*	$47\frac{3}{32}$*d.*	$51\frac{1}{16}$*d.*
New York	103·64	104·6	102·25

4. THE SYSTEM OF CURRENCY AND BANKING AT PRESENT IN OPERATION.

The system of currency and banking at present in operation is identical with that existing before the War.

(*a*) There have been no permanent *alterations of the Pre-War system.*

(*b*) *Convertibility and Acceptability of Currency and Bank Notes.*—The satisfactory position of currency and bank note issues in respect of acceptability, both legal and customary, is unchanged although since the outbreak of war notes have not been convertible into gold.

(*c*) There has not been any *official control of foreign exchanges.*

(*d*) No *official support of the foreign exchanges* has been given, although at times of violent fluctuation the Banco de la Nacion has occasionally come into the market as a dealer for moderate amounts of exchange.

(*e*) The various *forms of currency in actual use* within the country as media of exchange are paper (Moneda Legal), and the various foreign gold coins which are legal tender at fixed rates.

(*f*) There is no *hoarding* of metallic and note currencies in the Argentine to-day.

(*g*) *Barter* is not necessary, as currency is readily accepted in all transactions.

(*h*) No *changes in the currency system* are expected. Fluctuations in exchange have caused some inconvenience to foreign trade but the premium on Argentine currency has not had the effect of diminishing exports.

5. Principal factors affecting the Foreign Exchange Situation.

(*a*) *Balance of Trade.*—During the earlier part of the war there was a considerable diminution in Argentina's imports from abroad, this being mainly due to the shipping difficulties. The imports in 1914 were valued at a little under 99 millions sterling, but by 1915 they had dropped to about 60 millions, afterwards recovering to approximately the pre-war figure; but, owing to the fact that foodstuffs and other necessary commodities form so large a part of Argentina's exports, the value of shipments from the country tended upward, as is shown in the following table :—

—	Imports.	Exports.	Balance of Trade in favour of Argentina.
	£	£	£
1913	99,245,000	103,831,000	4,586,000
1914	64,546,000	80,626,000	16,080,000
1915	61,099,000	116,436,000	55,337,000
1916	73,226,000	114,599,000	41,373,000
1917	76,061,000	110,031,000	33,970,000
1918	100,120,000	172,292,000	72,172,000
Aggregate for six years ...	£474,300,000	697,818,000	223,518,000

It will be noted that in 1918 there was a sudden jump in the exports, the total being, in fact, some 30 per cent. higher than in the preceding year, and this expansion is doubtless to be attributed to the arrangement whereby the principal banks operating in Argentina granted a credit of $200,000,000 to the Allies for the purpose of purchasing cereals within the country. This financial arrangement having been concluded, ships were allotted by the Allied Governments to convey the cereals in question from Argentina to Europe, and the export figures were increased accordingly.

From the above table it will be seen that the total imports for the past five years were equal to less than four years' requirements on the 1913 basis, and this without making any allowance for the substantial rise in prices which occurred during the period.

In the case of the exports, however, the aggregate for the past five years is equal to that of six years, taking 1913 as normal. As a consequence there has been a remarkable increase in the balance of trade in favour of Argentina and, whereas in 1911 there was an import surplus of a little over £12,000,000 and in 1913 an export surplus of only £4,586,000, in the following five years the aggregate excess of exports over imports was £217,000,000, or about £43,000,000 per annum. These

figures go far to explain the steady appreciation in the Argentine dollar as compared with the sovereign.

(*b*) *Foreign Indebtedness.*—The external debt of Argentina amounts to a little over 60 millions sterling, practically the whole of which was issued in the London market. Since the commencement of the war, however, Argentina has borrowed in the New York market, an issue of $25,000,000 of 6 per cent. 5-year Treasury Bonds having been placed there in May of 1915.

The average amount of debt per head of population in Argentina is approximately £7.

(*c*) *Currency Depreciation by Inflation.*—Argentina has not escaped the general rise in prices which has been world-wide during the past five years, but in her case, as in that of most other non-belligerent countries, it has been due to a movement sympathetic with the rise in other countries and to the actual shortage of commodities rather than to any unhealthiness in currency conditions. As a matter of fact, Argentina's currency is very much sounder now than before the war, as is shown by the statement of the Conversion Office quoted on an earlier page. The great prosperity of the country, however, and the increased volume of paper in circulation have naturally been to some extent responsible for the rise in commodity prices.

(*d*) *Uncertainty as to Financial Position.*—Although the policy of the Government has been a source of preoccupation and has constantly provoked comment, it is not considered that uncertainty as to the financial stability of the country affects the international situation at the present time.

(*e*) *Uncertainty as to Political stability.*—The Argentine Government, for the first time in history, is in the hands of the Liberal Party, and their policy as regards the handling of the Labour situation has been the cause of considerable anxiety; but this feature, which might in some circumstances have manifested itself in the foreign exchange situation of the country, has been entirely outweighed by the heavy trade balance in favour of the Argentine.

CHAPTER II.

Chili.

1. The Currency and Banking System before the War.

The year 1888 forms a useful date from which to start a review of the monetary system in Chili. At that time the principal banks in Chili were the Banco Nacional de Chili and the Banco Valparaiso, both of which institutions were entitled to issue currency notes. In addition, other smaller banking institutions had the same right of issue, provided that they deposited certain specified guarantees with the Government. The Chilean Government also had the power to issue notes, and did in fact exercise this power.

In 1891 there was a revolution in Chili, which lasted from January to August; President Balmaceda was routed and the Congress Party were victorious. Amongst the early legislation proposed by the new Government was a law dealing with the currency, which it was sought to place upon a gold basis. In 1894 this law was carried, and the currency was placed upon a fixed gold basis of 18*d.* per dollar. This operated from the 1st July, 1895, until the middle of 1898, when, owing to a temporary fall in sterling value of the currency from 18*d.* to 17¼*d.*, there was a run on the banks, and the Government, in order to prevent a general bankruptcy, declared a moratorium of 30 days. As a further remedial measure the Government issued $50,000,000 of paper money, with part of which it took up the notes of the various banks, at the same time withdrawing their privilege of further issue. As a result the only note issue in Chili since 1898 has been that of the Government.

Although a date was fixed at the time for the resumption of gold payments, the question has been continually postponed by the introduction of new laws delaying the operation of the original legislation.

Legislation has also been introduced at intervals to authorise the Government to issue an increased amount of notes in view of the greater industrial activity and the larger demand for currency resulting therefrom. By this means the amount of the issue was gradually increased until it reached $150,000,000 in 1914. Against this issue a gold reserve has been provided, but no fixed proportion of gold reserve to be maintained appears to have been laid down by the original legislation. The gold was deposited partly with London, New York and German banks, but since the commencement of the War the greater part of the funds held in Germany have been transferred from that country to New York against the sale by German nitrate companies of part of their stocks held in Chili. The purchasers were the Allied Governments, who as a result of the operation secured a substantial addition to their supplies of nitrate, while the Chilian Government obtained delivery of its reserve gold in the United States. A considerable part of the Chilian note reserve fund is now held in England, but some is held in New York, and it is believed that the amount of the metal so earmarked is sufficient to cover the greater part of the existing note issue of $150,000,000 taken at the current rate of exchange.

The banking system of Chili is carried on on lines very similar to those obtaining in Great Britain. Amongst the native institutions the Banco de Chili is the most important. This bank in its present form is the result of the amalgamation which took place in 1903 of the Banco Nacional de Chili, the Banco Valparaiso and the Banco Agricola. Its present capital is $120,000,000 (subscribed), of which $60,000,000 is paid up. In addition to other native banks, several foreign banks transact a large business in the country.

2. The Use made of Currency and Banking Credit to Finance the Government during the War and its Effects on the Currency Position.

Chili not having been an active participant in the war, there was no necessity for the country to resort to special measures in order to finance the Government during the past five years, though it may be noted that in the early days of conflict the revenue was greatly reduced by the falling-off in the exports of nitrate, the duty upon which forms a large part of the national revenue.

At the outbreak of the war, however, there was a financial crisis in the country, and in order to relieve the situation the Government authorised the banks to withdraw currency notes from the Treasury against the deposit of mortgage bonds, and also against gold lodged with the Chilian Treasury in London and, subsequently, in New York. The privilege of drawing notes against bonds has since been suspended and the notes which had previously been drawn have been paid off; but notes against sterling or dollar deposits are still running.

Up-to-date figures are not available, but the following table gives a comparison of the gold held against the special notes at the end of the years 1914 and 1917:—

—	1914.	1917.
	Dollars.	Dollars.
British banks	74,261,006	54,748,254
German banks	27,127,604	2,720,941
Exchequer (Chilian)	3,643,634	24,764,607
United States banks	—	11,910,755

Another emergency measure was that by which the Government undertook to issue notes in favour of the nitrate industry exclusively, these notes ranking as currency, but being repayable by the nitrate companies

on the shipment of their output. The amount advanced by the Government was at the rate of 3 pesos per quintal of nitrate, which at the time was considered sufficient to allow the producers to continue working. The Government was doubtless moved to take this special measure in view of the fact that nitrate is the staple industry of the country and that shipments of the fertiliser carry an export duty of 2*s.* 4*d.* per quintal. Also it has to be taken into account that the closing down of a nitrate oficina is a matter which involves very considerable expense, since these oficinas are situated in a desert country and on a cessation of operations the whole of the workers disperse and a reassembling when operations recommence is a matter of considerable time and difficulty.

For a few months after the outbreak of war, the nitrate industry was in a parlous condition, but then important orders for nitrate were received on Allied account in connection with the manufacture of explosives. As a result, the industry recovered very markedly, and up to the time of the Armistice the demand was sufficient to absorb the whole of the nitrate produced. This demand, however, was purely of war origin, and with the restoration of peace conditions it practically ceased. During the autumn of 1919, however, interest in nitrate again revived.

3. Statistics.

(*a*) *Gold and Silver Holdings.*—Separate figures are not obtainable, but the gold holdings of the Chilian banks as a whole on the 31st December, 1918, were \$102,950,000, as compared with \$108,160,000 at the end of 1914.

(*b*) *Circulation of Currency Issues and Bank Notes.*—As already stated the amount of Government notes outstanding is \$150,000,000 and this is the only note issue of the country apart from the special issues authorised against the sterling and dollar deposits and against the nitrate output referred to above.

There is no circulation of foreign notes.

(*c*) *Estimates as to the amount of Gold and Silver in the Hands of the Public.*—As specie payments have been suspended for so many years, the amount of actual coin in the hands of the public must be quite negligible.

(*d*) *Bank Deposits, including those of Central Bank.*—The total deposits of all the banks in Chili at the end of 1914 and 1917 are shown in the following table :—

31st December, 1914.		31st December, 1917.	
Gold.	Paper.	Gold.	Paper.
Dollars. 69,000,000	Dollars. 392,000,000	Dollars. 121,000,000	Dollars. 500,000,000

(*e*) *Exchange Rates.*—

—	Par.	30th June, 1914.	30th June, 1919.
London	18*d.*	9*d.*	10¾*d.*
New York	36.99 c.	18.49 c.	22½ c.

4. The System of Currency and Banking at present in operation.

Broadly speaking, the system of banking in use in Chili is based on the British system. As has been stated, the circulation is entirely in the form of Government notes, the total issue of which (apart from the special notes already described) has not varied during the War, the exact amount authorised at the present time, as in 1914, being $150,853,000. Against this a conversion fund of $111,270,000 gold was held at the 31st December last, as compared with $108,160,000 in 1914.

(*a*) There have been no *Permanent Alterations in the Pre-War System.*

(*b*) *The Convertibility and Acceptability of Currency and Bank Notes.*—The note issue at present is inconvertible, but this fact in no way affects its acceptability within the country. In the opinion of some senators, deputies and leading people in Chili the resumption of gold payments, if decided upon, should be made on the basis of 12*d.* per dollar, but others strongly incline to the view that the old level of 18*d.* should be reverted to. It is doubtful, however, whether the Chilian Government will again adopt a gold currency until they can be reasonably assured of a continuance of a balance of trade in favour of the country.

(*c*) *and* (*d*) There has been no *Official Control or support of the Foreign Exchanges.*—The State on occasions sells exchange, but it does so as a private dealer only. If the Government happens to hold important sums abroad, it can, and on occasions does, influence the rate of exchange.

(*e*) *Various Forms of Currency in actual use within the Country.*—The only forms of currency in the country have already been described.

(*f*) *Hoarding of Metallic and Note Currencies.*—Such hoarding, if it exists, is quite small.

5. Factors affecting the Exchange Position.

(*a*) *Balance of Trade.*—The figures for the five years 1914 to 1918 were as follows:—

Year.	Imports.	Exports.	Export Surplus.
	Dollars.	Dollars.	Dollars.
1914	269,756,699	299,675,435	29,918,726
1915	153,211,557	327,479,158	174,267,601
1916	222,520,828	513,580,000	291,059,172
1917	355,077,027	712,289,028	357,212,001
1918	436,074,000	799,620,000	363,546,000

It will be noted that in the five years the value of Chili's exports exceeded that of her imports by over $1,200,000,000 in the aggregate. Trade in Chili is chiefly dependent upon developments in the nitrate and agricultural industries. Foreign exchange is affected to a great extent by the former, in view of the fact that the nitrate industry provides the principal export of the country, and that the Government derives quite an important part of its revenue from the export duty upon nitrate. The high prices of agricultural and other products of the country have brought a period of prosperity to farmers and other branches of trade.

(*b*) *Foreign Indebtedness.*—The foreign indebtedness of Chili amounts to about £30,000,000, the great bulk of which is held in England.

(*c*) *Inflation.*—Commodity prices have risen, and the rise was probably partly due to the special issues of notes referred to above.

(*d*) *and* (*e*) *Uncertainty as to Financial and Political Position.*—Financial and political conditions are satisfactory.

CHAPTER III.

Uruguay.

1. The Currency and Banking System before the War.

The monetary system of the Republic of Uruguay is on a gold basis, but the country has no actual gold coins in circulation, while its subsidiary coinage—silver and copper—are minted for the Government in Buenos Aires. Having no gold coinage of its own, the Republic makes use of the coins of foreign countries, which circulate freely at certain fixed legal values which are given below. The chief currency of the country, however, is the Government note, which is issued by the Banco de la Republica, and is on a sound basis, the issue being covered to the extent of approximately 70 per cent. in actual gold. This, for all practical purposes, may be said to be now the only note issue in the country, since concessions giving the right of note issue to various banking institutions have in nearly all cases expired.

The chief factor in the monetary system of Uruguay is the Banco de la Republica, which acts in all the capacities of a State bank. The original charter stipulated that one-half of the annual profits should go to the Urguayan Treasury as general revenue and that the balance should remain with the bank, and, being treated as a surplus, should go to increase the amount of its capital resources. New legislation has, however, been brought forward empowering the bank to retain the whole of its profits and add them to capital, this modification of the law being intended to increase the bank's power to support the trade and industry of the country. In 1914, a profit of $1,200,000 was earned, and as a result the capital resources of the bank were increased to $13,262,000.

2. The Use made of Currency and Banking Credit to Finance the Government during the War and its Effects on the Currency Position.

Uruguay took no active part in the War, and no special measures were necessary for financing the Government, excepting that in September, 1914, an Internal Loan for $4,000,000 was floated, the greater part of the funds being used for meeting the Budget deficit of the preceding financial year and for providing the purchase price of the Mortgage Bank.

Uruguay was able to assist the Allies to finance purchases within the country by granting a credit of $40,000,000 gold to France and Great Britain.

Uruguay benefited greatly from war conditions particularly from the general advance in the prices of meat, cereals and other products. As a result, the exchange value of Uruguayan currency has advanced to a considerable premium, cable transfers on London having risen to a point as high as 67½*d.* before the end of 1919, as contrasted with a parity of 51.062*d.*, or $4.70 per £ sterling.

3. Statistics.

(*a*) *Gold and Silver Holdings.*—The gold holdings of the banks on the 30th June, 1914, and the 30th June, 1919, were as follows:—

—	30th June, 1914.	30th June, 1919.
	Dollars.	Dollars.
Banco de la Republica	14,245,890	45,091,787
Other banks	6,049,000	4,690,000

(*b*) *Circulation of Currency Issues and Bank Notes.*—The note issue of the Banco de la Republica on the 30th June, 1914, was $22,235,000 but by the 30th June, 1919, it had increased to $63,450,000, the gold holding

in the interval (as is shown above) having been more than trebled.

(*c*) *Estimates of Gold and Silver Coin in the Hands of the Public.*—No reliable figures are obtainable, but the amount is probably quite small.

(*d*) *Bank Deposits, including those of the Central Bank.*—The comparative figures are as follows:—

—	30th June, 1914.	30th June, 1919.
	Dollars.	Dollars.
Banco de la Republica	12,035,000	43,300,000
Other banks	31,640,000	61,500,000

(*e*) *Rates of Exchange.*—

—	Par.	30th June, 1914.	30th June, 1919.
London...	$51\frac{1}{16}$*d.*	$50\frac{3}{16}$*d.*	$54\frac{3}{4}$*d.*
New York	$0·966	97 per cent. (approx.)	100 per cent. (approx.)

4. The System of Currency and Banking at Present in Operation.

(*a*) There have been no *permanent alterations in the pre-War currency and banking system.*

(*b*) *Convertibility and Acceptability of Currency and Bank Notes.*—The position of currency and bank note issues in respect of convertibility and acceptability, both legal and customary, is unimpaired.

(*c*) *and* (*d*) There has been no *official control or support of the foreign exchanges.*

(*e*) *Forms of Currency in actual use.*—Foreign gold coins are accepted at fixed values as follows :—

	Dollars.
£1 (British)	4·70
$10 (United States)	9·66
$5 (Argentina)	4·65
20 milreis (Brazilian)	10·57
$20 (Chilian)	7·05
20 marks (German)	4·60
20 fr. (Latin Union)	3·73

(*f*) *Hoarding.*—There has been no hoarding of metallic and note currencies worth mentioning.

(*g*) *Barter.*—In consequence of the excellent currency position, barter does not exist.

(*h*) No *changes in the currency system* are anticipated.

5. Factors affecting Foreign Exchanges.

(*a*) *Balance of Trade.*—The following are the figures of Uruguay's foreign trade for the five years ending 1917 :—

Year.	Exports.	Imports.	Export Surplus.
	Dollars.	Dollars.	Dollars.
1913	68,496,000	50,353,000	18,143,000
1914	52,419,000	37,235,000	15,184,000
1915	73,291,000	34,980,000	38,311,000
1916	68,341,000	33,803,000	34,538,000
1917	103,456,000	71,608,000	31,848,000

(*b*) *Foreign Indebtedness.*—In December, 1914, the Public Debt of Uruguay amounted to $142,873,000, but against this the State holds valuable assets in the shape of the Banco de la Republica (valued at about $22,000,000), the State Insurance Bank (valued at $10,000,000) and the Mortgage Bank (valued at

$12,000,000). It follows, therefore, that approximately one-third of Uruguay's Public Debt is represented by real assets of a character likely to increase in value.

(c) *Inflation.*—There has been a rise in the prices of commodities which was probably partly caused by the imports of gold and provision of bank credits for France and Great Britain.

(d) *Financial and Political Position.*—The credit of the Government reflects satisfactory financial and political conditions.

In view of the excellent economic position of the country, no *measures for the reform of the currency* or improvement of the exchange position have been suggested.

It may be stated, however, that the fluctuations in exchange, as might be expected, have been somewhat inconvenient to a community interested in international trade, but in view of the insistent demands for meat, meat products and cereals, these fluctuations cannot be said to have hindered international trade.

CHAPTER IV.

United States of America.

SUMMARY.

Since the outbreak of War banking in the United States has been reorganised by the Federal Reserve Act. As a result of this Act the banking reserves of the country have been centralised, rendered mobile and placed under the control of a national body, the Federal Reserve Board. Further, currency and banking credit have been given elasticity which they previously lacked. The financing of the War was handled by the Government through the Federal Reserve Banks, and resulted in a great expansion of banking credits and consequently of Federal Reserve Note issues. The volume of Government securities owned by the banks, or held by them as collateral for loans, is still very great. The present level of commodity prices is more than 100 per cent. higher than that of five years ago, but the amount of money actually in circulation has increased less than 50 per cent.

All notes circulating in the United States are convertible into gold, both legally and in practice, at the Treasury in Washington, and a large surplus of reserves in gold is retained in the Federal Reserve Banks. The prohibition against gold exports was removed in June, 1919. At the same time, with unimportant exceptions, restrictions on dealings in foreign exchange were abolished. Since then the United States dollar has stood at a premium over most other currencies in the world, and that premium has tended to increase continuously in the countries of all European belligerents, and also of the Scandinavian neutrals. No serious attempt has yet been made to arrest or reverse this

tendency. The only practical proposal for currency reform now under discussion is the reorganisation of the silver currency suggested by the rise in the price of silver.

1. The Currency and Banking System before the War.

(*a*) *Banking.*—Before the inauguration of the Federal Reserve System in November, 1914, the United States banking system was made up of:—

(1) State Banks, chartered by the various State Governments and under the control of the State banking commissioners; and

(2) National Banks, operating under Federal charter and under the control of the United States Treasury.

The system was completely decentralised. On June 30, 1914, there were roughly 27,000 independent banks, about 7,000 of these being National Banks and the rest State Banks. There was no central bank or central banking system. The Federal Treasury was a so-called independent Treasury. That is to say its operations and expenditures were conducted independently for the most part of the banking system of the country and not through such a central bank as the Bank of England. The Treasury always had money on deposit in various amounts with the National Banks, but the Treasury was not under any obligation to make such deposits. Receipts might go direct into the Treasury, and payments might be made by vouchers on the Treasury.

The country had a per capita circulation of money on June 30, 1914, of $40. There was little elasticity in the volume of circulation and relatively little elasticity also in the volume of bank credit. This latter was due, among other things, to the complete decentralisation of the system, and the entire lack of any co-ordinating body or bank to direct the operations of the system.

The Federal Reserve System was organised under a law of Congress which required that all National Banks

should become members of the System or give up their Federal charter. Subsequently the law was amended to permit State Banks to join the Federal Reserve System, and a number have done so. The Federal Reserve System consists of twelve Banks located in each of the twelve districts into which the country is organised. They are under the control of the Federal Reserve Board, which is appointed by the President, and of which the Secretary of the Treasury and the Controller of the Currency are *ex-officio* members. These Reserve Banks are bankers' banks and take no deposits from the general public. They are depositories for members of the System (the National Banks and such State Banks as have joined the System), who keep their legal reserves there and discount their paper when it is necessary for them to replenish their reserves. The Federal Reserve Banks make their profits from their discount operations and from the securities in which they are permitted to invest some of their funds. The stock is held by the Member Banks and a maximum of 6 per cent. dividends are paid. Any surplus above this is taken in taxation by the Federal Government. The banks of the System, are, therefore, not a private money-making enterprise, but a 'service' to the banks and the country as a whole.

As the Member Banks require currency to pay out over their counter, they get it by drawing on their account at the Federal Reserve Bank in their district. A Member Bank, however, must maintain its legal reserves, so that, if it has no credit above its reserve requirement, it must replenish its account by the discount of commercial paper. The type of commercial paper which is discountable has been carefully defined by the Federal Reserve Board. It is here that the elasticity in the Federal Reserve currency comes in. The Member Banks will not retain excess quantities of currency in their vaults when they are paying interest upon it at the Federal Reserve Bank. They will deposit it and take up their paper, or if the demand for circulating media falls off, they will not replace maturing bills with new bills, but will deposit currency.

(*b*) *Currency.*—The circulating media of the United States consist of:—

(1) Gold and silver coin.

(2) Gold and silver certificates, which are certificates of deposit issued against gold and silver in the Treasury of the United States; and

(3) Notes.

Notes include:—

(i) Treasury Notes, popularly known as 'greenbacks,' which were issued at the time of the Civil War and still circulate as 'promises to pay' of the United States Government.

(ii) Bank Notes, issued by the National Banks against the deposit of 100 per cent. Government Bonds.

(iii) Federal Reserve Notes, which are the joint obligation of the Federal Reserve Banks and the United States Government.

All these various forms of notes are convertible into gold. The 'greenbacks' are convertible into gold at the United States Treasury, and the United States Treasury maintains between 100 and 150 million dollars of gold reserves against the 'greenbacks,' which aggregate 346 million. National Bank Notes and Federal Reserve Notes are convertible into gold on demand at the United States Treasury in Washington. The reserve for redemption purposes is maintained there by the National Banks for their needs and the Federal Reserve Banks for theirs. It is to be noted, therefore, that while paper currency is not interchangeable for gold in the banks throughout the country, it is at the United States Treasury in Washington. The conversion of currency into bullion for export purposes is by this means rendered somewhat more difficult, but it is possible none the less, and the New York banks can arrange for gold shipments whenever the exigencies of trade require it. Gold shipments were prohibited during the War, but this prohibition was removed on 9th June, 1919.

The mobilization of gold took place chiefly through the legislation passed in June, 1917, which provided that

Member Banks of the Federal Reserve System must hold all their reserves in the form of deposits with the Federal Reserve Banks, of which they were respectively members. Until that time part of the legal reserve had been held in the form of cash in vaults. The effect of the legislation, and also of moral pressure put upon the Banks, was to cause them not merely to increase their reserves in the Federal Reserve Banks, but to surrender to the Banks the greater part of their holdings of gold and gold certificates. Federal Reserve notes were issued in quantities which not merely took the place of the gold and gold certificates withdrawn from public use, but in excess of these amounts; the laws governing the Federal Reserve System provide that the notes may be issued with a gold backing of 40 per cent., while secured also by deposits with the proper officer of discounted commercial paper equal in face value to the value of the notes issued.

2. The Use Made of Currency Issues and Banking Credit to Finance the Government during the War and its Effect on the Currency Position.

The Federal Reserve Banks were the fiscal agents of the United States Government during the War. These banks handled all details connected with the sales and allotments of Treasury Certificates of Indebtedness among Member and non-Member Banks of their respective districts. These Certificates were advance credits to the Government against the sale of Liberty Bonds. The Government used these credits to pay for war materials and replenished them from the proceeds of the sales of the bonds to the general public. If there had been a complete absorption by the public of the bonds issued, there would have been no inflation, except the temporary inflation which came in the short interval between the allotment of Certificates of Indebtedness and the sale of the bonds. Though the bond issues were timed to take place at intervals and thus were expected to be a balance for Governmental pur-

chases, the latter had a natural tendency to run ahead of the ability of the public to save, and bank inflation resulted. There was no direct issue of currency to pay for Government purchases, as in a number of the belligerent countries, but under the Federal Reserve System any expansion in bank credit tends to produce an expansion in Federal Reserve Notes, which are, it will be recalled, the expansive element in United States currency. The inflation of deposits due to the payment of war bills against Certificates of Indebtedness increased the demand for circulating media, and the Federal Reserve Banks responded to this demand by issuing currency to their members. This was made more easy by the action of the Federal Reserve Board in allowing a premium rate of discount on Member Banks' paper when that paper was accompanied by Government securities as collateral. It is estimated that there have been hypothecated at the Federal Reserve Banks Government securities to the amount of 4,000 million dollars. As soon as these securities are taken up by the public out of savings, the inflation of credit due to war financing will cease and a reduction in Federal Reserve Notes outstanding be brought about. The machinery which has functioned in the financing of the War has worked well in the sense that adjustments can be brought about without special difficulty.

When the abnormal credit requirements of the Government have ceased, as they soon will, the preferential rate on borrowings against Government securities can be removed and the Member Banks can be urged to insist on their clients' taking up Government securities.

The present level of commodity prices is more than 100 per cent. higher than that of five years ago.

3. Statistics.

(*a*) *Money in Stock and in Circulation.*—The total stock of money in the United States on 1st July, 1914, was $3,738,288,871. On 1st July, 1919, it was $7,588,473,771. The amount of money actually in circulation, however, on 1st July, 1914, was

\$3,402,015,427, and on 1st July, 1919, \$4,842,345,415. In other words, the amount of circulating media per capita on 1st July, 1914, was \$34·35, and on 1st July, 1919, it was \$45·00. Though the general stocks of money in the country have about doubled, the amount actually in circulation has increased less than 50 per cent., because the bulk of the gold imported into the country as a result of the war has been retained in the Federal Reserve Banks as surplus reserves. There was almost a third less gold in circulation in July, 1919, than there was in July, 1914. The net increase in circulating media is largely represented by the Federal Reserve Notes, which on 1st July, 1919, were about \$2,500,000,000. Since an increase in currency is necessary to correspond to the increase in the general price level, and since the Federal Reserve Notes will automatically be withdrawn as credit contracts, it can be seen that the problem of inflation in the United States is relatively not a serious one.

(*b*) *Deposits.*—The total deposits of all reporting banks in the United States on 29th June, 1914, was \$21,329,709,000.

It is impossible to give a corresponding figure for 30th June, 1919. For about that date the following figures are available:—

Deposits in National Banks	\$15,924,865,000
Deposits in Federal Reserve Banks, 27th June, 1919..	\$2,436,757,000

On 29th June, 1918, reporting banks other than National Banks and Federal Reserve Banks reported total deposits of all kinds of \$17,750,105,000. In all probability the total is now larger. If, however, it had remained the same, the total deposits of all reporting banks as at 30th June, 1919, would have been \$36,111,727,000.

Exchange rate.—The par rate of exchange on London is $4 \cdot 86\frac{2}{3}$; the cable transfer rate on 1st July, 1914, was 4·88—slightly above par; on 1st July, 1919, it was 4·58; on 1st November, 1919, it was $4 \cdot 16\frac{7}{8}$; on 4th February, 1920, it touched $3 \cdot 21\frac{1}{2}$.

4. Currency and Banking System at present in Operation.

(*a*) *Permanent Alterations in the Pre-War System.*—The use of the Federal Reserve System as the fiscal agency of the Government during the war undoubtedly hastened the development of the pre-war currency and banking system, but no radical changes were brought about.

Nine thousand Banks are now members of the System and the number is constantly growing. The membership includes virtually all the larger banking institutions of the country. The Federal Reserve notes, based on commercial paper and backed by gold reserves, are now a permanent part of the circulation of the country. Federal Reserve Bank notes are a new form of circulation. These were intended originally to be used only to take the place of National Bank notes that might be retired. A new use, however, has been found for them. During the War the United States, in order to help satisfy the insatiable demand of the Orient for silver, melted down or withdrew from circulation millions of its silver dollars. The silver certificates before the war had been virtually the only form of paper money used in denominations below five dollars. When they came to be withdrawn and silver dollars were melted down, Federal Reserve Bank notes were issued in their place, in order not to diminish the volume of small hand to hand currency.

Before the inauguration of the Federal Reserve System, the practice of re-discounting by Banks with other institutions was not general; indeed it was if anything frowned upon as a sign of over-extension of credit facilities. This attitude has entirely changed, and Banks are now resorting very freely to the Federal Reserve Banks to re-discount paper, and a new and most important element of elasticity and liquidation has thereby been introduced into the banking system. Acceptances too have come into being as a result of the provisions of the Federal Reserve Act, and bank

acceptances, which were unknown in the United States in 1914, now constitute the highest form of prime paper in the country.

(*b*) *Convertibility and Acceptability.*—There is complete interconvertibility between all forms of currency circulating in the United States. Some forms of paper are made specifically redeemable in gold, and the silver certificates are made specifically redeemable in silver. Gold coin, silver dollars, and United States notes are the forms of legal tender in the country. Gold certificates and silver certificates are so-called lawful money, a category which is of much less importance now than five years ago. Actually, if not theoretically, the Government accepts all forms of money to any amount in payment of any debts owing to it.

(*c*) *Official Control of Foreign Exchange.*—All restrictions on dealings in foreign exchange were removed on 9th June, 1919, except for certain areas of Russia under the control of the Bolsheviks, and certain territories in respect of which transactions are permitted only through the American Relief Administration.

(*d*) *Official Support of Foreign Exchange.*—There are no foreign exchanges receiving any official support from the Government.

The London exchange on New York was pegged in the autumn of 1915, and the peg was kept in until March, 1919. The mechanism by which this was brought about was the appointment by the British Government of fiscal agents in New York—J. P. Morgan and Co. —with authority to buy all exchange offered on London at 4·765. Morgan and Co. had large credits, some of which the British Government established by the negotiation of loans and the sale of American securities before the United States went into the war, and others, which the United States Treasury subsequently placed at the disposal of the British Government. With those credits available the agents of the British Government were easily able to maintain sterling at a fixed price.

(*e*) *Forms of Currency in Actual Use.*—The various forms of currency in actual use within the country as media of exchange are as follows:—

Gold coin.
Gold certificates.
Standard silver dollars.
Silver certificates.
Subsidiary silver.
Treasury Notes of 1890—sometimes called 'Sherman Notes.'
United States Notes—commonly known as 'Greenbacks.'
Federal Reserve Notes.
Federal Reserve Bank Notes.
National Bank Notes.

These various media are all of one value and equally acceptable because the paper is all convertible into gold, as explained above.

No issue of any foreign Government circulates in the United States, save for an insignificant amount of Canadian money, which is found near the Canadian border.

(*f*) *Hoarding.*—There is no hoarding of metallic or note currencies other than that which ordinarily prevails in every country under normal conditions.

It is reported that since the Armistice about $300,000,000 of hoarded money has returned to the Banks. This was in the form of gold and other moneys, and was apparently held chiefly at the beginning of hostilities and perhaps largely by the foreign element.

(*g*) *Barter.*—No trade is conducted by barter in the United States.

(*h*) *Pending Currency Changes.*—The Federal Reserve Act provides for the substitution of National Bank Notes for Federal Reserve Bank Notes. This process is going on gradually, as provided under the law.

A Bill has been introduced into Congress for reducing the fineness of U.S.A. subsidiary coin from nine-tenths to eight-tenths. Another Bill proposes to amend the

Pittman Act by authorising the Secretary of the U.S. Treasury to sell all the silver dollars in the Treasury upon the retirement of the outstanding silver certificates. This Bill also proposes to repeal the provision requiring the Secretary to repurchase silver bullion at $1·00 per ounce for the replacement of the dollar pieces disposed of under the Pittman Act.

An Act making gold certificates legal tender has passed both houses of Congress. The purpose of this Act is to release for circulation United States notes which have been held out of circulation by the banks.

5. The Principal Factors Affecting the Foreign Exchange Situation.

(*a*) *Balance of Trade.*—Total value of imports and exports of merchandise :—

—	Years ending 30th June—		Increase, 1919 over 1914.
	1914.	1919.	
	Dollars.	Dollars.	Dollars.
Exports	2,364,579,148	7,224,744,785	4,860,165,637
Imports	1,893,925,657	3,095,873,104	1,201,947,447
Excess of exports	470,653,491	4,128,871,681	3,658,218,190
Total exports and imports... ...	4,258,504,805	10,320,617,889	6,062,113,084

(*b*) *Foreign Indebtedness.*—The United States Government has no foreign indebtedness as such. There are, of course, some Government Bonds and other American securities held abroad, although it is doubtful whether these amount to five hundred million dollars in all. The exigencies of the war caused the sale of American foreign-held securities to a very large extent.

(*c*) *Inflation.*—There is undoubtedly an inflation of credit due to the hypothecation of Government securities at the Federal Reserve Banks. Until the bulk of these securities have been taken up by the public and paid for out of savings, there will be a corresponding amount of bank inflation with a corresponding increase in Federal Reserve Notes as a result. The United States, however, can be said to have no real problem of currency inflation.

(*d*) *Uncertainty as to Financial and Political Position.*—There is no uncertainty as to the financial or political stability of the United States.

6. The Effect of Depreciated and Fluctuating Exchanges upon International Trade.

In the stabilisation of exchange American financial interests are vitally concerned. The exchange fluctuations affect American export business and the depreciation of European currencies, if continued, will cut down American business with Europe and tend to rob American industry of a market for its surplus production. Many plans have been proposed for improving this situation, either by extending large credits to Europe, with Governmental guarantees, or by the reduction of American exports in order to bring the exchange back to par, correct inflation, and reduce prices. Mr. W. P. G. Harding, Governor of the Federal Reserve Board, is one of the leading advocates of the latter plan. Many bankers, on the other hand, are for the extension of long-term credits, based on the sale of debentures to the American public. But they recognise that banking credits are not adequate to the needs of Europe on the one hand, nor desirable from the standpoint of the American banking system on the other. They point out that the free extension of bank credits to Europe will result in tying up the assets of the banks, and that this would have the effect of further inflating the currency and further increasing prices—quite apart from the increase in prices which comes naturally from the shipment of goods to Europe, for which there is active

demand at home. The problem facing those who wish to extend long-term credits based on debentures is that of getting the American public, unused to the purchase of foreign securities, to take up these debentures.

The opinion is unanimous that only the imperious needs of Europe for many sorts of commodities prevents the high discounts on foreign currencies in terms of the dollar from affecting adversely and promptly the export trade of the United States. It is impossible to judge how far purchases by Europe of American commodities have been curtailed by reason of the lowered purchasing power of other currencies. Neither is it possible to predict how far in the near future Europe will turn to other channels, and foreign buyers purchase in other markets than the United States. The recent report, for example, of French efforts to buy in the German market shows how the importers of that country are driven by the circumstances to take advantage of the foreign exchange situation, which is favourable to France as regards German trade, but very unfavourable as regards trade with the United States.

There has been a certain amount of selling of foreign-held American securities by their owners in order to take advantage of the high value of the dollar in foreign currencies. How far this is likely to be a corrective of the situation cannot be said, but it is not probable that it will exert a great, and certainly not a permanent influence, since each sale lessens the amount of securities which could in the future be used for the same purpose.

7. Proposals for Currency Reform and Improvement of the Exchange Position.

The United States has no problem of its own in regard to currency and foreign exchange, and thus has no plans in regard to reorganisation. The Federal Reserve System, which gives the country an elastic currency based on commercial bills has worked admirably during the war, and has vindicated the claims of

the organisers of the System that it would afford the country an adequate banking system in an emergency.

Certain persons have proposed further Government aid to the European Allies by the United States beyond the $10,000,000,000 which Congress has authorised and which has now almost entirely been made use of. This proposal has not received wide acceptance.

Meanwhile, it seems likely that the Treasury of the United States will for the time being permit its European debtors to fund and add to the principal of their debts, interest as it comes due, in order that the exchanges may not be further depressed, and the foreign countries further hampered in their present difficult credit situation.

On 17th September, 1919, an Act was approved and became law, which permits national banks to invest up to 10 per cent. of their capital and surplus in the stock of corporations chartered or incorporated in the United States and "principally engaged in such phases of international or foreign financial operations as may be necessary to facilitate the export of goods, wares, or merchandise, from the United States . . . . . to any foreign country."

The Edge Bill* provides for the Federal incorporation of banking corporations authorised to do foreign banking business. Such corporations would be permitted to transact in the United States only such business as was necessary and incidental to the general conduct of their business. Under the supervision of the Federal Reserve Board, such a corporation would have the following powers :—

"To purchase, sell, discount, and negotiate notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidence of indebtedness; to purchase and sell securities, including the obligations of the United States or of any State thereof; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Federal Reserve Board may impose; to issue

* NOTE.—Since this was written the Edge Bill has been passed, after the introduction of certain minor amendments.

letters of credit; to purchase and sell, exchange, coin and bullion; to borrow and to lend money on real or personal security; to receive deposits, and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Federal Reserve Board, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein."

The object of the Bill, therefore, is to bring into existence corporations which shall be enabled to finance imports and exports both on a short-time and a long-time basis. They are permitted, it will be seen, to borrow and lend money on real and personal securities. They may, therefore, accept any sort of security offered by the foreign buyer or debtor and issue debentures or other instruments of indebtedness of their own, which they may sell in the United States as they find a market therefor among the public.

A prominent banker has suggested that European countries issue a type of security similar to receivers' certificates. In other words, a security which would give American investors a prior lien on the property behind the securities in order that the latter might prove attractive to general investors, and thus secure a ready market in the United States. This banker and others feel that the question is not one of short time credits, but of credits outstanding at least for several years, since it will take that time in his opinion for Europe to be in a position to begin to pay back its debts.

A well-known manufacturer gives as his opinion that the present is a time not for the further extension of the export trade of the United States, but for the bending of American industrial energies to the problem of increasing industrial efficiency at home. The United States would then be in a position to meet all demands of foreign export trade when, several years hence, Europe has become more able to finance her trade with America.

PART III.—ASIA.

CHAPTER I.

China.

Summary.

The currency position in China is so complicated that no useful summary of its problems and difficulties can be made in a few words. The memorandum printed below gives in a compressed form a *résumé* of all its essential aspects. The problems arising to-day are not materially different from those which were familiar before the war.

1. The Currency and Banking System before the War.

The monetary unit in China is the Chinese ounce or tael of silver; the tael is the recognised medium for banking and wholesale transactions; its weight is not uniform; it varies from one commercial centre to another. The silver also is of varying purity, rated according to a theoretic standard which differs with the locality. It circulates in the form of ingots, or 'shoes,' as they are called, of sycee of different shapes and sizes up to fifty or sixty taels in weight. A tael weighs about $1\frac{1}{2}$ ounces troy. The purity of sycee is rated in thousandths of pure silver. Thus the Haikwan or Customs tael in which dues are paid is 992·3 parts of 1,000 fine; the Kuping or Government Treasury tael, 987 fine. The Shanghai Tsaoping or 'Tribute' tael (used in commercial transactions) contains $518\frac{1}{4}$ grains of silver 1,000 fine.

The only Chinese coin proper is the cash, originally 1/1000th of a tael of silver. It has a square hole in the centre and the coins are often strung into rolls of 100, of which 10 rolls go to the tiao or string of cash. A

full tiao is, therefore, 1,000 cash. Cash is the most important, if not the only, domestic currency in China.

Paper money in the form of tiao notes is commonly met with, but the issue being left to private native banks the circulation is strictly circumscribed as to area. The tiao notes of one town are not accepted even in another neighbouring town.

It will be seen that the currency of China is lacking in portability, uniformity, divisibility and cognisibility, attributes which are generally recognised as essential to any sound system of currency.

The earlier European traders brought the Carolus dollar to China, which had an intrinsic value of 4*s.* 2*d.*, but its violent fluctuations in exchange value produced an intolerable situation and the foreign traders were ultimately driven to abandon their coin of currency and to substitute the Chinese tael weight of silver. The anomalous situation is shown by the fact that on a designated day in April, 1857, the banks at Shanghai credited their customers with a tael containing 525 grains of silver in exchange for each dollar containing 374½ grains standing to their credit. In effect, from that date, the tael became, and has since remained, the unit of currency for wholesale transactions throughout China.

The need of a more accurate and convenient circulating medium was felt, and about the middle of last century the Mexican dollar was introduced, and, as an adjunct to the ordinary Chinese currency, came into general use between foreigners and native merchants.

The advantages to trade of a uniform coin like the Mexican dollar were obvious enough to induce the Chinese to establish Mints at various Provincial capitals for the coinage of Chinese dollars resembling Mexicans in appearance. The coins having only behind them the guarantee of the Province in which they were issued, were never freely accepted outside of it. The Mints accordingly fell back upon the more lucrative business of striking subsidiary coins in 10 and 20 c. pieces of 800 fine, instead of 900 as in the case of the dollar. A profit of 10 per cent

was more than the Mints could resist. Coins were turned out as fast as they could be issued, with the result that their redundancy led to serious dislocation of prices.

With a view to checking this dislocation it was proposed in 1912 to abolish Provincial issues altogether and to substitute a national currency for the whole of China, but this at the time was found to be impracticable on account of the vested interests which had grown up. An attempt, however, was made to introduce a dollar coin bearing the stamp of the Republic and the effigy of its first President, Yuan Shih Kai. It was adopted by the Chinese Government as the money of account in presenting their annual budget and also by the railway companies. Decrees were issued making it legal tender for taxes and also for railway fares. Many Provincial dollars are still in circulation, and their bullion content is generally supposed to be the equivalent of 72/100ths of a Kuping tael, 900 fine (900 parts silver, 100 copper).

The functions of the native banking system are confined to the internal exchanges of the country. It is possible for a traveller to obtain a credit from a native banker on his various correspondents which will enable him to pay his way from one end of China to the other; by no possibility, when the journey is ended, can the traveller obtain from a native bank a draft for the balance of his account upon any other country whatsoever. For such accommodation he must have recourse to the foreign banks.

2. The Use Made of Currency Issues and Banking Credit to Finance the Government during the War and its Effects on the Currency Position.

China was only affected by the European struggle in a small degree during the first two or three years of the war, owing to the remoteness of her territory from the theatres of war and to the fact that she supplies herself most of her own needs.

Her contribution to the war was an offer to place her

whole resources at the disposal of the Allies. This involved no special currency issues or banking credits.

A number of coolies were recruited in China. Some were sent to Russia, but most of them were shipped to France on behalf of the French and British Governments.

It is believed that civil contracts with the coolies were made and that 70,000 were enrolled by the British military authorities as the Chinese Labour Corps. The finance required for shipping these coolies and remitting their savings was carried out, indirectly, through the foreign banks in China.

No large foreign loans were contracted by China during the War, though the budget deficits were made good to some extent by advances from Japan.

3. Statistics.

(*a*) *Gold and Silver Holdings.*—So far as is known, the Chinese Government hold no stocks of gold or silver. According to a statement dated the 31st December, 1914, the Bank of China held against its note issue a cash reserve of $20,000,000 and 'cash on hand (excepting note reserve) $15,500,000.' No statistics are available for 1919.

There is not much gold produced in China and very little gold is held there.

(*b*) *Notes in Circulation.*—The Central Government issues dollar notes through the State Banks, namely, the Bank of China and the Bank of Communications.

The latter did not issue notes in 1914, but a statement of accounts by the Bank of China shows that in December, 1914, their notes in circulation amounted to $16,398,178·71.

In December, 1917, according to a statement of the Chinese Minister of Finance, the Bank of China had issued notes in all for $71,892,962, and the Bank of Communications had issued $28,027,123.

A return made in 1915 gives the amount of paper money issued by the Provincial authorities as $172,000,000, circulating as follows:—

——	Amount Issued.	Market Value.	Discounted Value.
	Dollars.		Dollars.
Anhui	780,000	At par	780,000
Chekiang	2,439,000	Less 10 per cent.	2,195,100
Chihli	6,400	Less 10 per cent.	5,760
Three Eastern Provinces	34,650,157	Less 38 per cent.	21,483,097
Fukien	300,000	Less 10 per cent.	270,000
Honan	2,200,000	At par	2,200,000
Hunan	36,000,000	Less 44 per cent.	20,160,000
Hupeh	30,000,000	Less 20 per cent.	24,000,000
Ili and Sinkiang ...	7,000,000	Less 20 per cent.	5,600,000
Jehol...	15,000	Less 10 per cent.	13,500
Kiangsi	8,000,000	Less 33 per cent.	5,360,000
Kuangsi	3,000,000	Less 10 per cent.	2,700,000
Kuangtung	32,000,000	Less 40 per cent.	19,200,000
Shansi	720,000	At par	720,000
Shantung	480,000	At par	480 000
Shensi and Kansu ...	7,000,000	Less 10 per cent.	6,300,000
Yunan and Kueichow ...	4,000,000	Less 30 per cent.	2,800,000

Bank Notes are also issued by numerous Native Banks and also by the Foreign Banks established at Treaty Ports. No particulars of the Native Bank Notes are obtainable.

The balance sheets of three British Banks issuing notes in China show that on the 31st December, 1918, they had in circulation approximately £4,198,000, but this total includes their notes circulating in Hongkong.

(*c*) *Estimates of Gold and Silver Coin in the Hands of the Public.*—No satisfactory estimates are obtainable. Dr. Vissering, in his book on Chinese Currency, published

in 1911, says that a recent estimate puts the coins in circulation at:—

Foreign dollars	..	114,000,000
Chinese dollars	..	43,000,000
Sub-silver coin	..	1,500,000,000
Copper 10-cash coins of the value of	Tls.	100,000,000

According to a Chinese statement, the Republican Government has minted up to February, 1918, 184,946,487 new Chinese dollars and destroyed 51,679,151 old dollars.

The Provincial Mints, the Board of Finance reported in 1910, had coined 1,400,000,000 of fractional silver coins during the period of 1890 to 1908.

The same authority says that since 1900 up to December, 1917, Chinese mints have turned out copper coins as follows:—

10-cash pieces	31,682,102,306
20 ,,	386,292,308
50 ,,	300,805,522
100 ,,	15,699,227
200 ,,	3,064,862
1-cash piece	160,487,661
2-cash pieces	28,718,641
5 ,,	37,942,509

It is said that Dimes to the value of $370,000,000 were issued by the Mints in Kuangtung and Hupeh, where they circulated in 1918 at a value of 11 ten-copper cash, or 1/11th of a dollar.

All these estimates must be taken with great reserve.

There is a very large circulation of brass 'Cash' coins, but no estimate of the number of these can be given.

At most of the Treaty Ports of China the foreign banks established there hold stocks of silver.

In Shanghai, on the 3rd July, 1914, these were:—Taels, 47,560,000 (Sycee); dollars, 21,460,000, and 513 bars silver.

At the same port, on the 30th June, 1919, the stocks were :—Taels, 21,279,000 and dollars, 11,700,000.

It must be borne in mind that coins are sold in China for what they will fetch in silver, which is the basis of exchange for all important transactions.

(*d*) *Bank Deposits.*—No estimate can be given of the aggregate of deposits.

The statement on the 31st December, 1914, of the Bank of China gives their fixed and current deposits as $57,391,685.

No figures are available for 1919.

There are no legal restrictions on the establishment of banks in China, with the result that all over the country there are found small money shops whose capital ranges upwards from a few hundred pounds.

The foreign banks have large deposits, including the funds collected by the Customs and the Salt Gabelle Authorities; but no particulars are available.

(*e*) *Exchange Rates.*—There being no par of exchange between China, which has a silver standard, and countries using a gold standard, it is only possible to give the current quotations of the chief trade centre, Shanghai :—

Telegraphic transfer on London, 30th June, 1914	2s. 6¼d.
Telegraphic transfer on London, 30th June, 1919	5s. 3d.
Telegraphic transfer on New York, 30th June, 1919 ..	$120½ per 100 Shai Taels.
*Demand drafts on New York, 26th June, 1914	$61⅝ per 100 Shai Taels.

*Note.—The telegraphic transfer rate on the 30th June, 1914, between Shanghai and New York is not obtainable, so the demand rate is given instead. This rate was steady at the time and the telegraphic transfer rate on the 30th June, if there was one, might be assumed to be one-eighth per cent. lower.

4. The System of Currency and Banking at Present in Operation.

(*a*) *Permanent Alterations in the Pre-War System.*—Among the permanent changes made in the pre-war system of currency may be cited the National Coinage Law, which was promulgated on the 8th March, 1914, fixing silver as the standard and making a 72 Candareen dollar (one hundred candareens are equal to one tael, or, say, a little over five grains troy), the unit to be called one yuan. The purpose of this Act was to unify the multifarious currencies, to recall old dollars and coins, and to issue new standard coins in their stead.

According to a Chinese statement, which must be accepted with reserve, the reforms already carried out under this new law are as follows:—

(1) The design of the dollar has been unified, bearing the portrait of Yuan Shih Kai, a better course than that which was formerly in vogue, when each province had its own design and the coin of one province could not be circulated in other provinces. The Yuan dollar can be used anywhere without restriction. Token coins, such as the half-yuan, 20c. piece and 10c. piece, were also minted, the designs being issued by the head Mint to the various Mints.

(2) The weight and fineness were fixed, the fineness being 89 per cent. pure silver, each dollar to weigh 72 candareens Kuping, the net amount of silver being 64·08 candareens. The maximum variation in weight and fineness allowed is 3/1000th, any coins found showing variation to be re-minted. All Mints are required strictly to observe this law. The Mints send specimen dollars to the Ministry of Finance to be assayed and tested, and the banks on receiving new dollars also send specimen dollars to the Ministry to be assayed.

(3) To maintain decimal progression, a Mint is not allowed to over-produce. The Bank of China and the Bank of Communications are ordered to exchange standard coins at legal rates, and the

Government is enforcing the law gradually. Success has already been attained in Chihli. Shantung, Shansi, Honan, Kiangsu, Anhui, Chekiang, Fukien and Kuangtung will be dealt with as the second stage; Kansu and other provinces as the third, and Manchuria and other provinces as the fourth.

(4) The market rate of standard coins is to be abolished in order to avoid fluctuation. Formerly coins were treated as goods with market prices, because dollars varied in fineness and weight, and because the Government used the tael in public funds. Now coins have been unified, and the Government uses the dollar in public funds. The Government now allows people to bring silver to the Mint, and on payment of six li (a li is the tenth part of a candareen) per dollar as minting expenses, they can obtain dollars for silver. With free coinage the market fluctuations will be naturally abolished. The market price of old-style dollars is now gradually coming to the same level as the legal rate, showing the success of the Government scheme.

(*b*) *The Convertibility and Acceptability of Currency and Bank Notes.*—The aim of the present Government is to restrict the issue of notes to the State Banks, namely, the Bank of China and the Bank of Communications, who will concentrate their reserves at six important trade centres. This policy cannot, however, be carried out at present because, owing to forced issues, the notes of these two banks have themselves become depreciated in consequence of their inconvertibility.

Great confusion has been caused by the note issues of provincial banks and the conditions with regard to these in Hunan, Hupeh, Szechuan, Manchuria and Sinkiang are very bad owing to depreciation.

Attempts have been made from time to time by the central Government to redeem various note issues, but they have not been successful. The last attempt was made in the Province of Kuangtung in July, 1914, when £1,000,000 was released for the purpose by the Salt Administration from the proceeds of the Chinese

Reorganisation Loan of 1913. Notes of the face value of $31,645,504 were redeemed by the issue of Bank of China notes, convertible into silver. The exchange was made at the rate of 455 in new notes for 100 of the old. Unfortunately, however, the Bank of China has now stopped specie payments, and their notes, among them those exchanged in Kuangtung, have consequently fallen to a heavy discount.

(*c*) and (*d*).—*Official Control and Support of Foreign Exchanges.*—No attempt has been made at official control of dealings in foreign exchange and there has been no official support of the foreign exchanges.

(*e*) *Forms of Currency in Actual Use.*—The various forms of currency in actual use in China as media of exchange have been dealt with above, as well as their relative value and acceptability.

There are large numbers of coins issued by foreign Governments that circulate in China, but these exchange only for their silver value as a commodity. They readily flow back if not melted into bullion, to their country of origin, with which such coins form a common medium of exchange.

(*f*) *Hoarding.*—There has been no appreciable increase lately in hoarding metallic currencies in China. There is not sufficient confidence in paper issues to encourage hoarding of notes.

(*g*) *Barter.*—There is no important change in the extent to which trade has been conducted by barter. Coins and notes circulate freely at depreciated values for small business operations. Those of any dimensions are usually calculated in the tael and liquidated in silver sycee.

(*h*) *Pending Currency Changes.*—The avowed policy of the Government is to solve the existing currency confusion and entanglements by unifying their copper and silver coins and by rigidly enforcing the national coinage law. Various methods have been proposed for doing this, but all of these presuppose a strong central authority with ample funds to carry out the reform, and these two essentials are at present wanting.

5. Factors Affecting the Exchange Position.

(*a*) *Balance of Trade.*—Up to about 1840 the imports into China were negligible and the trade was balanced by the constant importation of silver dollars. Between 1840 and 1870 opium, cotton and Manchester goods made up some of the leeway. Since 1870 the tide has gradually turned the other way, and by 1900 the value of the imports exceeded that of exports. The excess in 1903 was Tls. 82,000,000, in 1909, Tls. 80,000,000, in 1913 Tls. 167,000,000, since then it has been as follows :—

		Average Rate of Exchange.
In 1914 Tls.	213,000,000	2 $8\frac{3}{4}$
In 1915 Tls.	36,000,000	2 $7\frac{1}{8}$
In 1916 Tls.	35,000,000	3 $3\frac{13}{16}$
In 1917 Tls.	87,000,000	4 $3\frac{13}{16}$
In 1918 Tls.	69,000,000	5 $3\frac{7}{16}$

The net imports after showing a heavy fall from Tls. 569,000,000 in 1914 to Tls. 454,000,000 in 1915 rose again steadily to Tls. 554,000,000 in 1918. The exports have increased each year from 1914, when they were Tls. 356,000,000, to Tls. 485,000,000 in 1918.

The following table summarises, along lines laid down by Mr. H. B. Morse, the visible and invisible assets and liabilities of China in her commercial dealings with foreign countries for the specimen years 1903, 1909 and 1913.

—	Million taels.	Million taels.	Million taels.
Liabilities.	1903.	1909.	1913.
Merchandise imported	316	418	570
Bullion and coin imported	37	32	59
Loans and indemnities	44	54	58
Chinese Legations, Consulates, and students studying abroad	4	33	31
Freights, insurance, and profits of foreign traders in China	23		
	424	537	718

—	Million taels.	Million taels.	Million taels.
Assets.	1903.	1909.	1913.
Merchandise exported	236	339	403
Bullion and coin exported	33	22	24
Unrecorded land trade	4		
Proceeds of loans for development of railways, mines, etc.	27		
Foreign Legations, Consulates, garrisons, navies, in China	28	77	77
Foreign merchant ships, maintenance and repairs	12		
Foreign missions, hospitals, schools, and travellers	12		
Remittances from Chinese emigrants...	73	100	100
	425	538	604

(*b*) *Foreign Indebtedness.*—The total debt on account of foreign loans and indemnities was estimated in 1914 at about £175,000,000, and is probably now over £200,000,000.

The annual charge for the present year is unobtainable : but the amount in 1916 for the service of foreign loans (including indemnities) was stated in round figures to be £10¼ millions. The burden of indebtedness has been greatly reduced by the rise in exchange from 3s. 3d. in 1916 to 8s. in December, 1919.

Practically the whole amount is paid from the revenues of the Customs and Salt Gabelle, the collections of which were as follows :—

—	Customs.	Salt Gabelle.
	Haikwan taels.	Dollars.
1914	38,917,525	60,409,675
1915	36,747,706	69,277,536
1916	37,764,311	72,440,590
1917	38,189,429	70,627,249
1918	36,345,044	71,500,000
1919	46,000,000	80,600,000

(*c*) *Inflation.*—One of the difficulties of the Chinese Government referred to above has been caused by making forced issues of coins and notes. The Chinese Minister of Finance stated, on the 2nd July, 1913, that there were $130,000,000 notes in circulation, at an average discount of 50 per cent. Since then little real good has been done to alleviate the situation. There is no great confidence in any issues of the central or provincial Governments. In particular, the notes of the former issued through the Bank of China and the Bank of Communications, circulate at a heavy discount and have become inconvertible.

The coins circulating in China are treated as goods with a market price, and in consequence of the heavy discount to which they have fallen, there is no such thing as token-value coins as such.

(*d*) *Uncertainty as to Financial Position.*—The credit of China, as gauged by the market price of her loans abroad, stands high. This is due to the punctiliousness with which she meets her foreign obligations. Her ability to do so rests on the extraordinary success of the Customs and Salt Revenue administrations, which remit practically the whole service of China's foreign debt.

This state of her credit may, however, be affected adversely by continued resort to the issue abroad of Treasury Bills, the burden of which is already considerable.

The Reorganisation Loan of 1913 for £25,000,000 was instrumental in wiping out a number of short term obligations incurred largely on account of military operations. The loan also covered foreign indemnity arrears and current obligations of the Chinese Government which had accrued owing to the absence of the usual provincial revenues.

No sooner had these been paid off than the Finance Minister made a further request to the Five Groups for a loan of £20,000,000 to cover a list of urgent short term debts amounting to $76,000,000 and for currency reform.

The outbreak of the European War put an end to China's hopes for further loans from the Consortium, and the needs of the time led to the revival of the system of obtaining credit or advances wherever it was possible to do so. This has led to the accumulation of a floating debt, which is becoming a source of anxiety.

No reliable statement can be obtained of the amount of this floating debt, but the following estimate has been compiled :—

	Dollars.
Short-term debts of the Central Government incurred up to the 10th June, 1913	76,365,298
'Public Loan' issued in China (interest on this has only been paid once)	4,006,920
Military Public Loan of 1911 ..	6,367,640
Domestic Loan issued in 1914 ..	24,000,000
,, ,, 1915 ..	24,000,000
Two domestic loans issued in April, 1918	93,000,000
	227,739,858

Besides these borrowings, China has received advances and loans from Japan for over Yen 300,000,000, and the various Ministries have contracted short-term foreign loans, about 30 in number, amounting to $29,710,201.

All the loans referred to are repayable within the next few years, and in some cases the amortisation has already commenced.

The means to satisfy these obligations are not at present obtainable by fresh internal borrowings, and unless, therefore, some change is made in the policy of the Government, it is clear that there must remain considerable uncertainty as to the financial position of China. The only visible help to cover the most pressing outstanding debts is from outside.

Since 1916 there has been no Budget, on account of the tangled political situation. The Ministry of Finance

has, however, drawn up a budget for the fiscal year 1919–1920, an outline of which follows :—

RECEIPTS.

Ordinary Revenue.

Land revenue	$87,085,291
Customs revenue	75,612,907
Salt revenue	91,686,026
Taxes on commodities	39,037,706
Direct and miscellaneous taxes	24,832,394
Direct and miscellaneous, additional ..	4,332,541
Revenues from Government properties and enterprises	2,411,368
Miscellaneous receipts from the provinces	6,167,172
Receipts by the different offices of the Central Government	1,904,094
Direct receipts by the Central Government	42,737,652
Total of Ordinary Revenue	$375,807,154

Extraordinary Revenue.

Land revenue	$6,121,103
Customs revenue	695,749
Taxes on commodities	26,685
Direct and miscellaneous additional taxes	3,911,410
Revenue from Government properties and enterprises	31,522
Miscellaneous receipts from the provinces	293,037
Receipts by the different offices of the Central Government	44,638
Direct receipts by the Central Government	18,229,410
Loans	201,580,392
Annual deficit	38,710,687
Increase of police collections	2,240,000
Total of Extraordinary Revenue ..	$271,884,633
Grand Total (Ordinary and Extraordinary Revenues)	$647,691,787

Expenditures.

Ordinary Expenditures.

Expenditure for Government organs ..	$24,238,599
Expenditure for diplomatic services ..	4,895,656
Expenditure for home affairs	44,556,804
Expenditure for financial administration..	41,400,137
Military expenditure	151,066,381
Naval expenditure	10,602,474
Judicial expenditure	10,347,124
Educational expenditure	6,202,065
Industrial expenditure	3,375,170
Expenditure for communications	1,949,075
Expenditure for Mongolian and Tibetan affairs	1,318,742
Total of Ordinary Expenditure ..	$299,952,227

Extraordinary Expenditure.

Expenditure for Government organs ..	$2,044,012
Expenditure for diplomatic services ..	1,324,555
Expenditure for home affairs	2,434,557
Expenditure for financial administration..	15,382,297
Military expenditure	4,917,027
Naval expenditure	65,024
Judicial expenditure	69,352
Educational expenditure	561,453
Industrial expenditure	382,247
Expenditure for communications	189,184
Expenditure for Mongolian and Tibetan affairs	50,000
Refund to loans	214,631,176
Total of Extraordinary Expenditure ..	$243,050,884
Grand Total (Ordinary and Extraordinary Expenditure)	$543,003,111

SPECIAL EXPENDITURE.

Special military expenditure	$102,448,678
Expenditure for the extension of police ..	2,240,000
Total of Special Expenditure	$104,688,676
Grand Total (Ordinary, Extraordinary and Special Expenditure)	$647,691,787

(*e*) *Uncertainty as to Political Conditions.*—Internally China has suffered, especially since 1910, from revolutions, civil strife and political unrest. Taxation is light, but its incidence uncertain. The currency of the country is in a chaotic condition, the note issues are greatly depreciated, even those of the State Bank, and token and other coins circulate at their market values as commodities.

Against these evils may be set China's high respect for international rights and her unwavering integrity in dealing with questions of foreign finance.

The outcome of the policy of extra-territoriality in China has been to concentrate the efforts and to consolidate the interests of Westerners on the Treaty Ports in China, which have thus become the outlet for practically the whole of China's foreign trade.

The political convenience of this policy is considerable, since any differences arising can be settled on the spot, but it has the commercial disadvantage of restricting the activity of foreigners within the confines of the ports. It restricts the field for direct intercourse with the Chinese working population proper.

At present the position of foreigners and their capital in China is considered secure and even important political events have surprisingly little effect on the exchanges. So long as the rights of foreigners remain undisturbed the exchanges seem to be unaffected, even under conditions of civil strife. Although China goes on borrowing, her bonds hold their price in the West; people merely point to the increasing returns of exports and to the rapid growth of the Customs and Salt Revenues.

6. The Effect of Depreciated and Fluctuating Exchanges upon International Trade.

China, in common with all silver-using countries suffers greatly from a fluctuating medium of exchange.

The onus of settling the rates of exchange between China and other countries rests for the most part on the foreign banks established in the Treaty Ports.

Generally speaking, the rise or fall in exchange is governed by the price of silver and the stocks of silver held by the foreign banks.

In the chief trade centre, Shanghai, these stocks amounted in December, 1918, to approximately 20,700,000 ounces in sycee and 12,100,000 in dollars, as compared with 24,500,000 ounces in sycee and 13,200,000 in dollars in January of the same year.

All markets are at present feeling the effects of the silver shortage, and there is no doubt that China, as a silver-using country, is suffering in a special degree from the world scarcity of the metal she so freely disgorged two years previously.

It is obvious that with China's vast population the exports represent but the fringe of her trade, and, since she is more or less self-supporting, her internal conditions are affected only in a relatively small degree by the state of the exchanges.

When the balance of trade is such as to necessitate the export of silver, there is naturally some interference with her internal trade, arising from the resultant stringency in the supplies of the metal. The bulk of the population, however, use nothing but brass cash and copper coins, and their consumption of European products is very limited.

It is the general practice of Europeans to shift the burden of risk in exchange on to the Chinese merchant, and he has become accustomed to bear it and to fix his prices according to the rise and fall in the gold price of silver. In this way the manufacturers, who supply usually through indents, are not greatly affected by temporary fluctuations, but rather by a steady rise or fall affecting, through prices, the general demand for and supply of their wares in China.

7. Proposals for Currency Reform and Improvement of the Exchange Position.

In May, 1910, the Board of Finance memorialised the Throne concerning the establishment of a national currency for China, and issued regulations connected therewith. These regulations were sanctioned and made law, but, with one or two exceptions, they are not yet in operation.

On the 15th April, 1911, the British, German, French and American Groups concluded an agreement with the Chinese for a loan of £10,000,000 for the purpose, *inter alia*, of currency reform, subject to the approval by the Groups of the scheme laid down in these Memorials. In August of the same year a Committee sat in London to consider the Chinese Government's programme of suggested currency reform. This Committee was composed of :—

- Jeremiah W. Jenks, Ph.D., LL.D., representing the United States.
- Sir David Barbour, K.C.M.G., K.C.S.I., representing Great Britain.
- His Excellency Bernhard Dernburg, P.C., LL.D., S.E.D., &c., representing Germany.
- A. de Foville, representing France.

(Committee appointed by the banks.)

- Chen Chin-Tao, M.A., Ph.D. (special delegate of the Chinese Government).
- The Peking representatives of each of the Four Groups, and others.

The report which this Committee drew up shows that the scheme proposed by China had been prepared more than a year previously, and in the meantime a number of changes of considerable importance had been made, but the supplementary information supplied by the Chinese delegates enabled the Committee to arrive at certain conclusions.

The Committee stated in their report with regard to monetary reform that:—

"The plan under consideration is avowedly not a complete plan for placing the currency on the ultimate basis contemplated by the Chinese Government, either a silver standard or a gold standard. It is avowedly only a plan for giving to China a uniform currency, and is to be judged only as a transitional measure. It must hereafter be supplemented by other plans to be prepared and put into effect at such time as shall seem wise to the Imperial Government."

"For the purpose of giving uniformity to the currency and as a transitional measure to carry out the purpose heretofore avowed by China, the report shows thorough study of the monetary systems of other countries, careful consideration of circumstances under which the system must work in China, and great care in its preparation. For this limited purpose the plan is, generally speaking, satisfactory. In a number of instances we have suggested changes, largely verbal, to make entirely clear the meaning of the law, changes that quite possibly may not be needed at all in the Chinese edition. In a few instances the changes suggested are of importance in connection with fundamental principles, but in some of these cases Dr. Chen has assured us that these suggestions had already been anticipated and the changes made; in others they meet with his hearty concurrence. Once or twice his judgment differed somewhat from that of the Committee, but probably in few, if any, instances is there sufficient difference to require in the Imperial law modifications beyond those for which provision has been made in the law itself, which can be secured by administrative action. On the whole, then, for the purpose contemplated, we consider the plan satisfactory if properly and efficiently administered along the lines suggested in this report, including suitable provisions against counterfeiting."

The Committee considered the plan for reforming the currency system satisfactory, although they suggested a number of minor changes.

Dr. Chen had stated on the authority of the Chinese Government that the purpose of China was to adopt eventually the gold standard. The Committee did not express any opinion as to the expediency of this. They called the attention of the Groups, as well as that of China, to the difficulties of changing the standard to gold, and suggested that a careful study should be made of the methods by which it was proposed to attain the gold standard and of the date of its inauguration, as well as an estimate of the amount of gold reserve that would be needed and the methods for its accumulation.

CHAPTER II.

India, British.

SUMMARY.

The Indian monetary system was affected during the war by two outstanding influences, the heavy foreign demands for Indian currency, and the increase in the price of silver. The demand for Indian currency which was met largely by a deposit of securities outside India and the issue of rupees (and notes) at home, forced the Government to increase its purchases of silver. Owing to the rise in the price of silver, however, the bullion value of the rupee tended continually to exceed its currency value, and the Secretary of State was compelled to raise the official rate of exchange. The first change was made in January, 1917, when the minimum rate for telegraphic transfers was fixed at 1*s.* $4\frac{1}{4}$*d.* By December 12th, 1919, the rate had reached 2*s.* 4*d.* In order further to meet the constantly increasing demand for domestic currency, the fiduciary note issue was raised from time to time, the legal maximum being 120 crores of rupees at the end of 1919 as compared with 14 crores of rupees in 1914.

In May, 1919, a Committee was appointed by the Secretary of State for India to consider the currency difficulties which had arisen. The most important recommendations of a Majority Report which have been accepted in principle by the Secretary of State are that the rupee which should remain unchanged in weight and fineness, should have its exchange value fixed against gold at the rate of R. 1 for 1·130016 grains of fine gold, and that the sovereign should remain legal tender and exchangeable for the rupee at the ratio of Rs. 10 to £1 as compared with Rs. 15 before the war. An announcement was issued on the 2nd February, d920, which brought the new exchange ratio into effect.

1.—Indian Currency System up to 1916.

(i.) Before the 26th June, 1893, India had a silver standard. The money of the country consisted of silver rupees, subsidiary coins, and currency notes (encashable for rupees), against which a reserve was held, consisting mainly of rupees, but to some extent of Indian Government securities. The rupee was unlimited legal tender. The public was at liberty to tender silver bullion at the mint to be coined into rupees; and this was the way in which the rupee coinage was actually replenished. The rate of exchange between India and gold standard countries depended on the price of silver, since purchasers of drafts on India would not pay for rupees at a higher rate than that at which they could be obtained by the alternative method of shipping silver to India for coinage, while sellers of drafts on India and purchasers in India of drafts on London would not do business at a lower rate than corresponded to the bullion value of the rupee.

(ii.) For 20 years before 1893 the general tendency of the rate of exchange was downwards, and eventually the conclusion was reached in 1893, in accordance with the recommendations of Lord Herschell's Committee, that the disadvantages of the fluctuations of exchange, and more especially of its downward tendency, were serious enough to render desirable a change in the Indian currency system. It was then decided to close the mints to the free coinage of silver and a new system was established, which, as developed in accordance with experience gradually gained, finally stood as follows:—

(*a*) The British sovereign and half-sovereign were made legal tender for Rs. 15 and $7\frac{1}{2}$ respectively, the rate thus established being the equivalent of 1*s.* 4*d.* per rupee. The Government undertook to issue rupees to the public in exchange for sovereigns and half-sovereigns at the same rate.

(*b*) The rupee (180 grains silver $\frac{11}{12}$ fine) remained legal tender without limit of amount. On the cessation of the right of the public to tender silver for coinage, the

control of the amount of new silver coinage rested entirely in the Government.

(*c*) The Secretary of State for India, who had long been the largest seller of remittances on India, undertook to sell bills of exchange on India without limit of amount at 1*s*. $4\frac{1}{8}$*d*. per rupee as a maximum rate. He also maintained, though without formal notification, the practice of not selling below 1*s*. $3\frac{29}{32}$*d*. per rupee.

(*d*) When, owing to temporary variations in the currents of trade, there was a greater demand for homeward than for outward remittances, the Secretary of State maintained exchange by selling sterling remittances (commonly known as Reverse Drafts) at 1*s*. $3\frac{29}{32}$*d*. per rupee.

The Gold Standard Reserve which has been accumulated from the profits of coinage is maintained for the purpose of meeting these drafts.

The effect of these arrangements was to prevent the exchange value of the rupee from fluctuating materially from the parity of 1*s*. 4*d*., and such fluctuations as occurred were similar to those that occur from time to time in the exchange between gold standard countries where the variations are limited by the cost of moving gold to adjust the balance of indebtedness.

2.—Changes made in 1916 and Subsequent Years.

It is obvious that the maintenance of the system described above depended, at times when there was a strong demand for rupees, on the existence of the two following conditions:—

(*a*) That the Government of India should have at their command adequate supplies of Indian currency, the amount required being, of course, proportionate to the intensity of the public demand.

(*b*) That the price of silver should not be higher, at any rate for any considerable time, than that which corresponds to a bullion value of 1*s*. 4*d*. for the rupee, *i.e.* 43*d*. per standard ounce. (Indian legal tender currency

so far as it does not consist of rupees, consists of gold coin and currency notes, both of which gave the holder the right to demand rupees from the Government.)

But in 1916–17 and subsequent years these conditions ceased to exist. The dominating financial feature of these years was the great demand for Indian currency, which arose from various causes of which the most noteworthy were the large excess of exports over imports, due to the War demand for Indian products tending to a dispersal of money up country, the large military disbursements of the Government of India and the great reduction in the imports of precious metals on private account. This demand for currency it was necessary for the Secretary of State to satisfy so far as possible in order that Indian resources might be freely available for the operations of war. He therefore adopted various expedients for increasing the supply of currency. In the first place the note issue was increased by the use of notes of low values—Rs. $2\frac{1}{2}$ and Rs. 1—and by a great expansion of the fiduciary portion of the issue, limited, however, by the need for maintaining its convertibility into metallic legal tender. Secondly, in order to obtain gold for currency purposes an ordinance was issued by the Government of India in June, 1917, requiring all gold imported into India to be sold to the Government at a stated price based on the exchange value of the rupee; and in 1918 a branch of the Royal Mint was opened at Bombay,* thus enabling gold to be converted into sovereigns on the spot instead of being sent as before to Australia for mintage.

But the main resource of the Secretary of State was the purchase of silver, which in 1916–17 and the three subsequent years was undertaken to the extent of 315,976,000 st. ozs. in the open market, whilst under the Pittman Act, 1918, 213,393,000 st. ozs. was obtained from the United States Government at a price of $101\frac{1}{2}$ cents per oz. Further, in order to assist the Secretary of State's efforts to purchase silver by reducing private competition in the market the import of silver on private

* This branch was temporarily closed in April, 1919.

account into India was prohibited in September, 1917. The export of silver on private account and the use of coins for other than currency purposes were also prohibited with a view to maintaining the circulation.

A minor expedient for the provision of export finance was evolved in agreement with the Exchange Banks. It is the practice of these Banks to equate their homeward and outward transactions so that their English and Indian resources respectively, arising mainly from deposits, may remain practically intact in the countries in which they were obtained. In 1917 the national interest made it desirable that exports from India should be financed as freely as possible; an object which, it was obvious, would be assisted if the Banks departed from the policy of the 'even keel' and bought export bills in excess of their purchases in the other direction. It is obvious that this would involve the transfer to England of some of the Banks' Indian resources, which would thereafter, if the rupee rose, have to be retransferred to India at a rate involving loss to the Bank on the double transaction. The Banks could not reasonably be asked to take this risk. The Secretary of State insured them against it by undertaking that, up to the amount of the Banks' Indian resources temporarily transferred to England, he would within a year after the war sell to the Banks Indian exchange at the rate at which the temporary transfer had been effected.

Despite all these measures, however, the Government of India felt unable to meet the drain on the currency resources in India that would have been entailed by the continued free sale of Council Drafts in London, and the Secretary of State therefore decided from December, 1916, to limit the sale of Drafts to a fixed weekly amount. This amount was sold at a fixed rate and distributed in certain defined shares between the chief Exchange Banks and a few firms of special eminence who had long been large purchasers, subject, however, to the understanding that the approved Banks and

firms were to conduct their exchange business with the general public requiring remittance between India and the West only at rates prescribed by the Secretary of State and calculated to yield an ordinary banking profit only. Thus the market rate was prevented from unduly fluctuating and rising largely above the official rate. But owing to the increasing cost of silver the Secretary of State, in order to guard himself against loss in the sale of rupee drafts, and also to prevent an excessive divergence between the currency and the bullion values of the rupee, was from time to time compelled to raise the official rate itself so as to correspond roughly with the bullion value of the rupee at the prevailing price of silver.

These changes are shown in the table below :—

Date of Introduction.	Minimum Rate for Immediate Telegraphic Transfers.	
3rd January, 1917	1	$4\frac{1}{4}$
28th August, 1917	1	5
12th April, 1918	1	6
13th May, 1919	1	8
12th August, 1919	1	10
15th September, 1919	2	0
22nd November, 1919	2	2
12th December, 1919	2	4

Despite these increases in the rate of exchange, however, the price of silver, enhanced mainly by the intense demand from China, has risen in recent months to a height that has precluded purchases by the Secretary of State in the London market or in America, since June, 1919.

3.—The Import of Gold, 1919–20.

In view of the cessation of silver purchases it was important that the demand in India for the precious metals should be satisfied so far as possible by the import of gold. The rate fixed under the Ordinance of June, 1917, for the acquisition of all gold imported into India was based on the sterling exchange value of the

rupee, and took no account of the premium on gold as compared with sterling. It was, therefore, unattractive to importers and gold imports were relatively small. As a consequence of the limitations on the supply of gold throughout the war period and the continuous demand for social purposes, the bazaar price of the sovereign rose considerably above its statutory rate of Rs. 15, and thus precluded the general use of gold as a medium of currency. But the removal of the embargo on the export of gold by the United States Government on 9th June, 1919, and the freeing of the market for South African and Australian gold opened new sources of supply, and in September, 1919, the Government of India raised its acquisition rate and varied it from time to time so as to include the premium on gold over sterling as measured by the dollar-sterling exchange, thus attracting to India considerable quantities of gold.

The revised conditions for the import of gold provided from September, 1919, a ready means alternative to the purchase of Council drafts for the remittance of funds to India. The Secretary of State thus found it possible to revert to more normal methods of selling the limited quantity of bills on India than had been practicable during the latter part of the war. From 18th September, 1919, while a demand for outward remittance continued, drafts were sold by open competitive tender, subject to a minimum rate and subject to the conditions that no applicant might apply for more than 20 per cent. of the amount offered each week. The gold acquired by the Government of India from importers, together with large amounts bought by the Secretary of State for India in London, is being gradually sold by auction in India, with the effect that the very high bazaar price of gold has already been somewhat reduced.

4.—The Indian Currency Committee, 1919.

Meanwhile the Secretary of State for India had appointed a Committee, with Sir H. Babington Smith as Chairman, to consider the currency difficulties which have already been described. This Committee which

reported in December, 1919, made in its Majority Report the following fundamental recommendations :—

(*a*) That the present rupee unchanged in weight and fineness should remain unlimited legal tender ;

(*b*) That the rupee should have a fixed exchange value, and that this exchange value should be expressed in terms of gold at the rate of one rupee for 11·30016 grains of fine gold, that is one-tenth of the gold content of the sovereign ;

(*c*) That the sovereign, which is now rated by law at Rs. 15, should be made a legal tender in India at the revised ratio of Rs. 10 to one sovereign ;

(*d*) That the import and export of gold to and from India should be free from Government control, as soon as the change in the statutory ratio has been effected, and that the gold mint at Bombay should be open for the coinage into sovereigns of gold tendered by the public ;

(*e*) That the notification of the Government undertaking to give rupees for sovereigns should be withdrawn ;

(*f*) That the prohibition on the private import and export of silver should be removed in due course, and that the import duty on silver should be repealed unless the fiscal position demands its retention.

These recommendations have been accepted generally by the Secretary of State as expressing the goal to which Indian Currency policy should now be directed, and an announcement was issued on 2nd February, 1920, which brought into effect the new exchange ratio for the rupee as recommended by the Committee in (*b*) above. By the terms of this notice the acquisition rate for gold imported under license into India was fixed at Rs. 10 for each sovereign tendered for import, *i.e.*, R. 1 for 11·30016 grains of fine gold.

It was also announced that Council drafts would continue to be offered at the Secretary of State's discretion for weekly sale at the Bank of England by competitive tender, and that the Government of India would, when occasion required, offer for sale stated weekly

amounts of Sterling Reverse Drafts on the Secretary of State (including immediate telegraphic transfers), the rate being based on the sterling equivalent of the price of 11·30016 grains of fine gold, as measured by the prevailing sterling dollar exchange, less a deduction representing the charges of remitting gold.

The Government of India on the same date cancelled the notifications of 1897 and 1906 which provided for the issue of rupees in exchange for sovereigns tendered at Reserve Treasuries and the Indian Mints respectively; and also abolished the prohibition on the import of silver and the import duty of 4 annas per ounce; thus giving effect to recommendations (*e*) and (*f*) of the Committee, subject only to the retention of the prohibition on the export of silver. The notifications which had prohibited dealings in gold and silver coin at a premium or their use otherwise than as currency were also cancelled. As regards recommendations (*c*) and (*d*), however, owing to the continuance of an abnormally high price of gold in India and the violent reactions which might be expected to result if the restriction on import were forthwith abandoned, it was decided for the time being to continue to control the import of gold, with a fixed acquisition rate of Rs. 10 for the gold content of the sovereign and meanwhile to sell gold bullion to the public at periodical sales, with a view to reducing the market price gradually to a level corresponding with this rate. It was decided also that during this transitional period the provisions of the existing law under which the sovereign is legal tender at the ratio of Rs. 15 should remain unaltered.

5.—The Present Position.

The Indian currency now consists of silver rupees, subsidiary coins of silver, nickel and bronze, currency notes,* British gold coin, and 15-rupee gold mohurs, which are of the same weight and fineness as the sovereign. The rupee (and also the silver half-rupee) is

* The issue of currency notes is a Government monopoly.

unlimited legal tender, and is the main metallic medium for the transaction of business. Sovereigns, mohurs and currency notes are also legal tender to any amount, subject to an obligation on the part of the Indian Government to cash notes on demand at currency offices. Gold coins, however, have not at any time had a large circulation as currency, but are increasingly used as ornaments and for other social purposes.

As pointed out above, the necessary steps for the completion of the currency structure, contemplated by the Currency Committee, involving the change in the internal ratio of the rupee from 15 to 10 to the sovereign, the removal of control on the import of gold and export of silver, and the establishment of an open mint for the free coinage of gold in Bombay, will be taken at some future date.

6.—Absorption of Currency.

The extent to which the various forms of currency have of recent years been absorbed by the people is shown in the table below.

ABSORPTION OF CURRENCY BY THE PUBLIC, 1898–99 TO 1918–19.

*(In lakhs of rupees.)**

Year.	Absorption of Coin.			Absorption of Currency Notes.	Grand Total.
	Rupees.	Sovereigns and Half-Sovereigns.	Total.		
1898–99 ...	*–1,61*	–‡	*–1,61*	2,52	91
1899–1900	13,93	4,05	17,98	1,72	19,70
1900–01 ...	8,62	3,05	11,67	*–18*	11,49
1901–02 ...	*–68*	1,47	79	30	1,09
1902–03 ...	2	3,23	3,25	2,59	5,84
1903–04 ...	10,97	4,92	15,89	3,28	19,17
1904–05 ...	7,43	4,41	11,84	37	12,21
1905–06 ...	14,50	5,70	20,20	4,16	24,36
1906–07 ...	18,00	7,70	25,70	3,83	29,53
1907–08 ...	3,92	11,08	15,00	*–3,85*	11,15
1908–09 ...	*–14,88*	5,15	–9,73	2,35	*–3,78*
1909–10 ...	13,22	4,31	17,53	5,03	22,56
1910–11 ...	3,34	2,15	5,49	19	15,68
1911–12 ...	11,50	13,33	24,83	4,44	29,27
1912–13 ...	10,49	16,65	27,14	2,71	29,85
1913–14 ...	5,32	18,11	23,43	2,65	26,08
1914–15 ...	*–6,70*	8,43	1,73	*–6,01*	*–4,29*
1915–16 ...	10,40	29	10,69	9,23	20,92
1916–17 ...	33,81	3,18	36,99	13,89	50,88
1917–18 ...	27,86	14;26	42,12	17,22	59,34
1918–19 ...	45,42	5,21†	50,63	49,29	99,92

The absorption of metallic money is no doubt due largely to non-currency uses, but it will be observed that in the last four years the absorption of paper money has also shown a great increase. The actual figures of note circulation on 31st December, 1914 to

* 1 lakh = 100,000.

† In addition gold mohurs to the value of 60 lakhs were absorbed during 1918–19.

‡ Sovereigns were not legal tender in this year.

1919, together with the proportion of metallic backing is shown below :—

INDIAN PAPER CURRENCY.

(Figures in lakhs of rupees.)

	Note circulation.			Reserve.			Percentage of gold and silver to gross note circulation.
Dec. 30.	Gross.	*Net.	†Active.	Gold.	Silver.	Securities.	
1914	60,83	58,68	44,83	16,96	29,87	14,00	7,62
1915	62,34	60,99	51,18	18.90	29,44	14,00	7,77
1916	82,17	79,11	66,88	23,84	17,37	40,96	5,01
1917	1,08.31	1,05,11	78,77	27,77	19,06	61,48	4,23
1918	1,47,09	1,46,71	1,35,39	19,80	32,13	95,16	3,47
1919	1,86,91	1,82,70	1,65,87	39,71	43,67	99,53	4,46

Despite its enormous increase in circulation the Indian currency note did not, except for a limited period during the war, suffer any considerable depreciation. When the new Rs. 2½ and Rs. 1 notes were first issued in large quantities discounts as high as 15 or even 19 per cent. were reported, but these rapidly diminished when it was seen that the notes were accepted in payment of Government dues, and when small coin was made freely available, and during 1919 such discounts never exceeded 3 per cent.

7.—THE FOREIGN TRADE OF INDIA.

As a general rule India's exports of merchandise tend to be much larger than her imports, whilst her imports of treasure tend to be much larger than her exports; but in the total foreign trade there is a considerable excess of exports. This excess is financed largely by the Secretary of State for India, who having to make

* Net circulation is gross circulation less notes held in reserve treasuries.

† Active circulation is gross circulation less notes held in all Government treasuries or at the head offices of Presidency banks.

disbursements in England on behalf of the Government of India, puts himself in funds by the sale in England of drafts on India, thus enabling payment to be made for the excess of exports. Figures are given below showing the balance of trade for the past 15 years.

—	Excess of Exports over Imports on Private Account.	Net Imports of Treasure on Private Account (Gold and Silver, Coin and Bullion).	Net Sales of Council Drafts (*i.e.*, Council Drafts less Reverse Drafts).
	£	£	£
1904–5 ...	40,548,200	16,700,600	24,150,000
1905–6 ...	39,086,700	9,646,900	31,886,000
1906–7 ...	45,506,600	14,420,000	34,069,400
1907–8 ...	31,640,000	18,253,300	15,676,700
1908–9 ...	21,173,300	11,116,300	5,335,300
Total ...	177,954,800	70,137,100	111,117,400
1909–10 ...	47,213,000	20,688,000	27,710,600
1910–11 ...	53,685,300	21,700,000	26,389,800
1911–12 ...	59,512,900	28,706,000	26,917,500
1912–13 ...	57,020,900	29,435,000	25,983,500
1913–14 ...	43,753,900	19,713,000	31,200,800
Total ...	261,186,000	120,242,000	138,202,200
	£	£	£
1914–15 ...	29,108,500	12,313,000	—1,508,795
1915–16 ...	44,026,600	6,984,000	15,917,257
1916–17 ...	60,843,200	1,357,000	31,671,577
1917–18 ...	61,420,000	15,277,000	34,865,798
1918–19 ...	56,540,000	53,000	15,889,000
Total ...	251,938,300	35,984,000	96,834,837

It is impossible to estimate to what extent India's balance of trade is affected by movements of capital or by interest payments. The total debt of India

on 31st March, 1919, was £504,688,411, of which £301,645,836 was rupee debt (converted into sterling at 2s.) and £203,042,575 sterling debt. Of this total debt, however, a large proportion is invested productively in canals and railways in India, giving a substantial return on the capital outlay.

8.—Miscellaneous Statistics, comparing figures of June, 1914, with those of June, 1919.

Date.	Gold and Silver holdings of the Government of India.		Estimated active circulation in crores of rupees.*		Estimated stock of metal in India.‡	
	Gold.	Silver.	Rupees.	Notes.	Gold.	Silver.
					000 ounces.	
	£	£				
June, 1914	22,703,000	29,110,000	187	46,34	87,200	3,256,000
„ 1919	11,794,000†	40,080,000	228	1,38,33	96,000	3,794,000

* 1 crore = 100 lakhs.

† On 15th February, 1920, the stock of gold held by the Government of India in their paper currency reserve was £31,341,000.

‡ Based on estimates from "Indian Finance and Banking," by G. Findlay Shirras, director of statistics with the Government of India.

CHAPTER III.

Japan.

SUMMARY.

The amount of currency circulating in Japan has been about doubled during the war, and prices of commodities have risen on the average over 100 per cent., but there are no signs of inflation caused by Government borrowing. The gold backing for the note issue of the Bank of Japan has been improved from about 50 per cent. to over 70 per cent. of the face value of notes in circulation, and the amount of gold coin in the hands of the public has increased by nearly 50 per cent. The abnormal demand for small change has rendered necessary an issue of currency notes by the Japanese Treasury. The convertibility of Bank of Japan notes has been continuously maintained. The only anxiety felt about Japanese currency is due to the price of silver.

The exchanges are in normal working order, Japanese currency standing at a premium in Europe and the United States.

1. THE CURRENCY AND BANKING SYSTEM BEFORE THE WAR.

(*a*) *Coin*.—The coinage system was before the war, and still is, a gold monometallic system, based on the 1897 Coinage Law, the unit being the yen, which is 2 fun (equals 0·75 grammes) of pure gold.

The subsidiary coins are of silver, nickel and bronze.

The most valuable coin in circulation is 20 yen gold (about £2 1*s.*) and the least valuable the subsidiary bronze 5 rin (about one-eighth of a penny).

(*b*) *Notes.*—Side by side with the coins and freely interchangeable with them at par were, and still are, Bank of Japan notes issued by virtue of an amendment made in 1883 to the National Banks Regulations, as a result of which amendment the Bank of Japan holds the sole right to issue notes in Japan proper. The highest denomination of note in circulation is yen 100 (about £10 5*s.*) and the lowest yen 1 (about 2*s.* 0½*d.*).

At the end of 1913 the circulation was made up approximately as follows :—

	Yen	Approximate Percentage of Total
Gold	37,348,240	6
Silver	123,986,606	21
Nickel	9,113,858	1½
Bronze	8,860,205	1½
Bank of Japan Notes	426,388,708	70
	605,697,617	100

Bank of Japan notes were always readily accepted as being equal to gold in settlement of transactions.

The foregoing remarks apply to Japan proper. The currency systems of Chosen (Korea), Raiwan (Formosa), Karafuto (Japanese Sakhalien) are framed upon much the same lines.

(*c*) *Banking System.*—The present system may be said to date from 1883, when the Bank of Japan was given the sole right to issue notes, and provision was made for the redemption of the then existing issues. The Bank is required to hold as conversion reserve against its issue of notes, gold and silver coin and bullion to the same amount as that of the notes issued. The silver coin and silver bullion must not exceed 25 per cent. of the entire

conversion reserve. The Bank of Japan does not avail itself of this right to issue notes against silver. However, the Bank may specially issue bank notes to an amount not exceeding yen 120,000,000 on security of Government Loan Bonds, Treasury Bills, and other reliable securities or commercial bills.

Further, if it should be deemed necessary on account of the condition of the market to increase the amount of money in circulation, bank notes may, in addition to those specified, be issued with the permission of the Minister of Finance on Government Loan Bonds, Treasury Bills and other reliable securities or commercial bills, but in this case an issue tax must be paid at the rate of not less than 5 per cent. per annum. The National Banks, which had been formed in accordance with the National Banks Regulations of 1872 (modelled upon the National Bank Act of the U.S.A.), had formerly issued notes. These National Banks gradually died out, as their charters expired, so that by 1899 they had altogether ceased to exist as National Banks, although many continued in business under the new regulations referred to below. In order to bring private banks and bank-like companies, which did not come within the purview of the National Banks Regulations, under more efficient control, the Ordinary Banks Regulations and the Savings Banks Regulations were promulgated in 1890 and put into force in 1893. The Ordinary Banks are under the control of the Minister of Finance, whose licence is required for the establishment of a new bank, or in case of amalgamation. This Minister is entitled to receive half-yearly accounts, and is empowered to order investigations at any time.

The Savings Banks must invest 25 per cent. of their deposits in national or local loans, and deposit the bonds with the Department of Finance. The Directors of these Savings Banks are jointly under unlimited liability in respect of the obligations of the Bank during their term of office, and for two years thereafter.

In addition to the Bank of Japan, the Ordinary Banks and the Savings Banks, numbering altogether 2,172

banks in February, 1914, there are a certain number of banks created under special laws with special objects and functions. These banks are as follows :—

Yokohama Specie Bank,
Hypotec Bank of Japan,
Bank of Taiwan,
Bank of Chosen,
Hokkaido Colonisation Bank,
Industrial Bank of Japan,

and certain small

Agricultural and Industrial Banks,
Mutual Loan Societies, and
Credit Associations in City Land.

A noteworthy feature of the whole banking system is the great interest and attention bestowed upon it by the Government.

2. The use made of Currency and Banking Credit to Finance the Government during the War and its Effects on the Currency Position.

At the outbreak of war, Japan found herself in the happy position of having in hand a relatively big sum of accumulated balances from various Government Departments, which she was able to allocate to cover her war expenditures.

By the help of the above-mentioned surplus, by a reduction in the amount placed on one side for Sinking Fund purposes, by a rigorous cutting down and postponement of expenditure, by the naturally increased revenue and new taxes, and by issuing bonds for war purposes, though the amount thus raised was relatively small, the Japanese Government was able to carry on without making use of currency issues or banking credit.

The ordinary and extraordinary expenditure added together for the last seven years, compared with the

ordinary and extraordinary revenue for the last seven years, have been as follows :—

Revenue. Yen.		Expenditure. Yen.
687,392,480	..	593,596,445 in the year to 31.3.1913.
721,975,484	..	573,633,925 in the year to 31.3.1914.
734,648,055	..	648,420,409 in the year to 31.3.1915.
708,615,882	..	583,269,853 in the year to 31.3.1916.
813,308,614	..	590,795,353 in the year to 31.3.1917.
740,832,661	..	740,832,661 in the year to 31.3.1918.
823,305,480	..	823,305,480 in the year to 31.3.1919.

For the last two years the figures are those of the Budget Estimates.

From the foregoing figures it will be seen that Japan did not need to finance herself by inflating her currency and banking credit. The issue of currency notes referred to below was made solely to meet the need for small currency. The increase in the circulation of bank notes may fairly be attributed to :—

(1) Normal growth of Japanese commerce.

(2) The great accession of business due to the war.

The ratio of specie to security in the collateral for every yen 100 of Bank of Japan notes issued, which in 1913 was approximately 53 gold to 47 security, was in July, 1919, 73 gold to 27 security (yen 728,302,170 gold and yen 280,264,913 security).

At the end of May 1919, the circulation was made up approximately as follows :—

	Yen
Gold	54,146,301
Silver	141,160,101
Nickel	10,367,337
Bronze	11,371,395
Bank of Japan Notes	927,112,185
*Currency Notes (30th April, 1919)	106,845,000
	Yen 1,251,002,319

* These were issued in order to relieve the situation caused by the shortage of subsidiary silver coin, which made itself felt in 1917. The notes were issued in denominations of 50 sen, 20 sen and 10 sen, and the total outstanding on 30th April, 1919, was yen 106,845,000.

3. Statistics.

(a) *Gold and Silver Holdings* :—

Held by the Bank of Japan	31st Dec., 1913 Yen	31st July, 1919 Yen
Gold	224,365,880	728,760,000
Silver	Nil.	Nil.

(b) *Notes in Circulation* :—

	31st Dec., 1913 Yen	31st July, 1919 Yen
Bank of Japan Notes	426,388,708	1,034,760,000

(c) *Gold and Silver Coin in the hands of the Public* :—

	31st Dec., 1913 Yen	31st May, 1919 Yen
Gold	37,348,240	54,146,301
Silver	123,986,606	141,160,101

Note the slight increase in the amount of silver as compared with the important addition to the amount of gold.

(d) *Bank Deposits, including those of the Central Bank* :—

31st December, 1913.	31st December, 1917.
Yen 2,211,242,566	Yen 4,937,654,294

The figures for December, 1917, are the latest obtainable for all the banks, but in order to give some idea of the growth of deposits to a later period, the following figures, being those of the Tokyo Associated Banks and Osaka Associated Banks, are appended :—

31st December, 1913.	30th April, 1919.
Yen 616,418,496	Yen 2,985,651,279

The total Post Office Savings Bank deposits, which in 1913 were yen 191,122,853, were in 1917 yen 310,819,240, and at the end of June, 1919, yen 605,003,980.

(*e*) *Exchange Rates* :—

—	Par.	30 June, 1914.	30 June, 1919.	16 Jan., 1920.
New York . (per 100 Yen).	\$49.8448	\$49.596	\$$50\frac{5}{8}$	\$50
London . . (per Yen).	s. d. 2 0.582	s. d. 2 0.375	s. d. 2 $2\frac{5}{16}$	s. d. 2 $8\frac{1}{8}$

4. The System of Currency and Banking at Present in Operation.

(*a*) *Permanent Alterations in the Pre-war System*—The Currency and Banking System has withstood very satisfactorily the shock of war, and no permanent changes are in contemplation. The Japanese Treasury Notes will, it is hoped, be paid off in the near future, *i.e.*, so soon as the abnormal demand for small money decreases or when the supply of silver increases.

(*b*) *The Convertibility and Acceptability of Currency.*—The Bank Note Issues have always been convertible and acceptable in payment for goods, and at no time during the war has there been any discrimination against the Bank of Japan's Notes as compared with gold.

(*c*) *Official Control of Foreign Exchanges.*—There has been no official control of dealings in foreign exchange in Japan.

(*d*) *Official Support of Foreign Exchanges.*—For the purpose of maintaining the value of yen, no official support of the foreign exchanges has been necessary, the yen never having been at a discount since the early days of the war.

However, with a view to facilitating exports, and in order to provide funds wherewith to pay for munitions supplied to the Allies during the war, the Special Exchequer Bonds Regulation was issued, and under this regulation Exchequer Bonds to the value of yen 472,845,000 were outstanding as at 30th June, 1919.

(*e*) *The Forms of Currency in Actual Use* are as follows:—

Coins.

Denomination.	Fineness.			Weight Grammes.
	Pure Gold.		Copper.	
20 yen, gold coin ..	900		100	16·6665
10 ,, ,, ,, ..	900		100	8·3333
5 ,, ,, ,, ..	900		100	4·1666
	Pure Silver.		Copper.	
50 sen, silver coin ..	800		200	10·1250
20 ,, ,, ,, ..	800		200	4·0500
10 ,, ,, ,, ..	720		280	2·2500
	Nickel.		Copper.	
5 sen, nickel coin ..	250		750	4·6654
	Copper.	Tin.	Zinc.	
1 sen, bronze coins	950	40	10	7·1280
5 rin ,, ,,	950	40	10	3·5640

Notes.

Bank of Japan Notes of 1, 5, 10, 20 and 100 yen, of which at 31st July, 1919, there were outstanding yen 1,034,760,000, which were covered by gold as to yen 728,760,000 and by security as to yen 305,999,000.

(*f*) *Hoarding.*—There is no reason to suspect abnormal hoarding of precious metals or notes. However, the price of silver has arrived at a point which is causing some concern to the authorities, and legislation has been passed imposing heavy penalties upon those who melt coins.

(*g*) *Barter.*—There are no recorded cases of payments in currency having been refused, trade having been financed in the normal way. None of the difficulties which have been met with can fairly be ascribed to

difficulties of currency or exchange, so far as Japan is concerned.

(*h*) *Pending Currency Changes.*—No currency charges are pending.

5. FACTORS AFFECTING THE EXCHANGE POSITION.

(*a*) *Balance of Trade.*—The excess of exports over imports during the four years 1915–1918 amounted to about yen 1,400,000,000. It is estimated that Japanese credits abroad total yen 1,141,000,000.

(*b*) *Foreign Indebtedness.*—The Japanese foreign indebtedness now totals yen 1,683,000,000.

(*c*) *Inflation.*—Japan's currency is at a premium in relation to other currencies.

(*d*) *Uncertainty as to the Financial Position.*—The war period has been characterised by a great boom in shipping and industrial business. This was interrupted for about six months in 1916, at a time when there was some anticipation of peace. It afterwards revived, however, and was maintained more or less right down to the Armistice; since the Armistice there has been a falling off in profits of some industrial companies, leading to a falling away of quotations on the share market. However, the market is now developing again on a steadier basis.

APPENDIX A.

Memorial on International Finance and Currency submitted to the Governments of—

Denmark, France, Holland, Norway, Sweden, Switzerland, and United Kingdom.*

The undersigned individuals beg leave to lay before their Government a proposal that the Governments of the countries chiefly concerned, which should include the United States, the United Kingdom and the British Dominions, France, Belgium, Italy, Japan, Germany, Austria, the Neutral countries of Europe and the chief exporting countries of South America, should be invited forthwith (the matter being of the greatest urgency) to convene a meeting of Financial representatives, for the purpose of examining the situation, briefly set forth below, and to recommend, in the event of their deciding that co-operative assistance is necessary and advisable, to whom and by whom assistance should be given, and on what general conditions.

*United States of America.**

The undersigned individuals beg leave to lay before their Government, the Reparations Commission, and the Chamber of Commerce of the United States of America the following observations, and to recommend that the Chamber of Commerce of the United States of America designate representatives of Commerce and Finance to meet (the matter being of the greatest urgency) with those of other countries chiefly concerned, which should include the United Kingdom, the British Dominions, France, Belgium, Italy, Japan, Germany, Austria, the Neutral Countries of Europe, the United States of America, and the chief exporting countries of South America, for the purpose of examining the situation briefly set forth below and to recommend upon the basis of authentic information what action in the various countries is advisable among the people interested in reviving and maintaining international commerce.

They venture to add to the above recommendation the following observations :—

The War has left to conqueror and conquered alike the problem of finding means effectively to arrest and counteract the con-

* The signatories of these two countries made reservations as given on pages 243 and 245.

tinuous growth in the volume of outstanding money and of Government obligations, and, its concomitant, the constant increase of prices. A decrease of excessive consumption and an increase of production and taxation are recognised as the most hopeful—if not the only—remedies. Unless they are promptly applied, the depreciation of money, it is to be feared, will continue, wiping out the savings of the past and leading to a gradual but persistent spreading of bankruptcy and anarchy in Europe.

There can be no social or economic future for any country which adopts a permanent policy of meeting its current expenditure by a continuous inflation of its circulation and by increasing its interest-bearing debts without a corresponding increase of its tangible assets. In practice every country will have to be treated after careful study and with due regard to its individual conditions and requirements. No country, however, is deserving of credit, nor can it be considered a solvent debtor, whose obligations we may treat as items of actual value in formulating our plans for the future, that will not or cannot bring its current expenditure within the compass of its receipts from taxation and other regular income. This principle must be clearly brought home to the peoples of all countries; for it will be impossible otherwise to arouse them from a dream of false hopes and illusions to the recognition of hard facts.

It is evident that Germany and Austria will have to bear a heavier load than their conquerors, and that, in conformity with the Treaty of Peace, they must bear the largest possible burden they may safely assume. But care will have to be taken that this burden does not exceed the measure of the highest practicable taxation, and that it does not destroy the power of production, which forms the very source of effective taxation. For the sake of their creditors, and for the sake of the world, whose future social and economic development is involved, Germany and Austria must not be rendered bankrupt. If, for instance, upon close examination, the Commission des Réparations find that, even with the most drastic plan of taxation of property, income, trade and consumption, the sums that these countries will be able to contribute immediately towards the current expenses of their creditors will not reach the obligations now stipulated, then the Commission might be expected to take the view that the scope of the annual contribution must be brought within the limits within which solvency can be preserved, even though it might be necessary for that purpose to extend the period of instalments. The load of the burden and the period

during which it is to be borne, must not, however, exceed certain bounds; it must not bring about so drastic a lowering of the standard of living that a willingness to pay a just debt is converted into a spirit of despair and revolt.

It is also true that amongst the victorious countries there are some whose economic condition is exceedingly grave, and who will have to reach the limits of their taxing-powers. It appears, therefore, to the undersigned, that the position of these countries, too, should be examined from the same point of view of keeping taxation within the power of endurance, and within a scope that will not be conducive to financial chaos and social unrest.

[The world's balance of indebtedness has been upset and has become top-heavy and one-sided. Is it not necessary to free the world's balance-sheet from some of the fictitious items which now inflate it and lead to fear or despair on the part of some, and to recklessness on the part of others? Would not a deflation of the world's balance-sheet be the first step towards a cure?]*

When once the expenditure of the various European countries has been brought within their taxable capacity (which should be a first condition of granting them further assistance), and when the burdens of indebtedness, as between the different nations, have been brought within the limits of endurance, the problem arises as to how these countries are to be furnished with the working capital necessary for them to purchase the imports required for re-starting the circle of exchange, to restore their productivity, and to reorganise their currencies.

The signatories submit that, while much can be done through normal banking channels, the working capital needed is too large in amount and is required too quickly for such channels to be adequate. They are of opinion, therefore, that a more comprehensive scheme is necessary. It is not a question of affording aid only to a single country, or even a single group of countries which were allied in the war. The interests of the whole of Europe and indeed of the whole world are at stake.

It is not our intention to suggest in detail the method by which such international co-operation in the grant of credit may be secured. But we allow ourselves the following observations:—

(1) The greater part of the funds must necessarily be supplied by those countries, where the trade balance and the exchanges are favourable.

* This paragraph was omitted from the American Memorial.

(2) Long-term foreign credit, such as is here contemplated, is only desirable in so far as it is absolutely necessary to restore productive processes. It is not a substitute for those efforts and sacrifices on the part of each country, by which alone they can solve their internal problem. It is only by the real economic conditions pressing severely, as they must, on the individual that equilibrium can be restored.

(3) For this reason, and also because of the great demands on capital for their own internal purposes in the lending countries themselves, the credit supplied should be reduced to the minimum absolutely necessary.

(4) Assistance should as far as possible be given in a form which leaves national and international trade free from the restrictive control of Governments.

(5) Any scheme should encourage to the greatest extent possible the supply of credit and the development of trade through normal channels.

(6) In so far as it proves possible to issue loans to the public in the lending countries, these loans must be on such terms as will attract the real savings of the individual; otherwise inflation would be increased.

(7) The borrowing countries would have to provide the best obtainable security. For this purpose it should be agreed that:

"(*a*) Such loans should rank in front of all other indebtedness whatsoever, whether internal debt, reparation payments or interallied governmental debt."

"(*b*) Special security should be set aside by the borrowing countries as a guarantee for the payment of interest and amortisation, the character of such security varying perhaps from country to country, but including in the case of Germany and the new States the assignment of import and export duties payable on a gold basis, and in the case of States entitled to receipts from Germany, a first charge on such receipts."*

The outlook at present is dark. No greater task is before us now than to devise means by which some measure of hopefulness will re-enter the minds of the masses. The re-establishment of a willingness to work and to save, of incentives to the highest

* *Vide* French reservation, *infra*. p. 245.

individual effort and of opportunities for every one to enjoy a reasonable share of the fruit of his exertions must be the aim towards which the best minds in all countries should co-operate. Only if we recognise that the time has now come when all countries must help one another, can we hope to bring about an atmosphere in which we can look forward to the restoration of normal conditions and to the end of our present evils.

In conclusion, the signatories desire to reiterate their conviction as to the very grave urgency of these questions in point of time. Every month which passes will aggravate the problem and render its eventual solution increasingly difficult. All the information at their disposal convinces them that very critical days for Europe are now imminent, and that no time must be lost if catastrophes are to be averted.

France.—The French signatories made the following reservation :—

"It is understood that a reasonable delay shall be allowed to each country to reduce its current expenses to the level of its receipts drawn from taxation or other normal sources of Revenues, and that the recommendations (*a*) and (*b*) above can only be applied in each particular case as far as they were reconcilable with the soundness and length of standing of the credit of the States."

DENMARK.

C. C. ANDERSEN, Chairman of the Socialist Party in the Landsting (Upper House).
F. I. BORGBJERG, Member of the Committee of the Social Group of the Rigsdag (Parliament).
I. C. CHRISTENSEN, Chairman of the Venstre (Liberal) Party of the Folketing (Lower House).
C. C. KLAUSEN, Chairman of the Merchants Association.
C. M. T. COLD, Chairman of the Danish Steamship Owners Society.
A. VOSS, Chairman of the Board of Industry.
E. GLUECKSTADT, Managing Director of the Danske Landmandsbank.
J. KNUDSEN, Chairman of the Conservative Party in the Folketing.

M. MYGDAL
A. TESDORPF
A. NIELSEN
— Presidents of the Board of Agriculture.

J. P. WINTHER
J. AURIDSEN
C. USSING
M. RUBIN
W. STESENSEN
— Managing Directors of the National-Banken in Copenhagen.

I. PEDERSEN, Chairman of the Venstre Party of the Landsting.

E. G. NIPER, Chairman of the Conservative Party of the Landsting.

C. SLENGERIK, Chairman of the Radikal Venstre Party of the Folketing.

H. TRIER, Chairman of the Radikal Venstre Party of the Landsting.

FRANCE.

MONSIEUR LÉVY, Senator.

MONSIEUR DARCY, President of the Comité Houillères de France.

MONSIEUR LEHIDEUX, President of the Union Syndicate de Banquiers et de la province.

MONSIEUR PETIT, President of the Tribunal de Commerce.

MONSIEUR LAURENT.

MONSIEUR DEWENDEL.

HOLLAND.

DR. G. VISSERING, President of the Bank of the Netherlands.

C. E. TER MEULEN, Banker, Member of the firm of Hope & Co.

J. VAN VOLLENHOVEN, Manager of the Bank of the Netherlands.

JONKHEER DR. A. P. C. VAN KARNEBEEK, Minister of State, President of the Carnegie Foundation.

J. J. G. BARON VAN VOORST TOT VOORST, President of the First Chamber of Parliament.

DR. D. FOCK, President of the Second Chamber of Parliament.

Jonkheer Dr. W. H. de SAVORNIN LOHMAN, President of the High Court of Justice.

A. W. F. IDENBURG, formerly Governor General of the Dutch East Indies, formerly Minister of Colonies.

S. P. van EEGHEN, President of the Amsterdam Chamber of Commerce.

E. P. de MONCHY, President of the Rotterdam Chamber of Commerce.

C. J. K. van AALST, President of the Amsterdam Bankers' Association.

G. H. HINTZEN, Banker, Member of the firm of R. Mees & Zoonen, Rotterdam.

F. M. WIBAUT, Socialistic Alderman of Amsterdam.

G. M. BOISSEVAIN, Economist.

E. HELDRING, Manager of the Royal Dutch Steamship Co.

Professor Dr. G. W. J. BRUINS.

NORWAY.

OTTO B. HALVORSEN, Speaker of Parliament.

J. TANDBERG, Bishop of Christiania.

F. NANSEN, Professor.

H. LOEKEN, Governor of Christiania.

B. HOLTSMARK, Leader of a Political Party.

A. JAHRESN, Leader of a Political Party.

JOH L. EMOVINCKEL, Leader of a Political Party.

K. BOMHOFF, President, Bank of Norway.

ALF BUERCKE
THUNE LARSEN
C. KIERULF
V. PLAHTE
CARL KÜTCHERATH
CHR. B. LORENTZEN
JOH. H. AARENSEN
THS. FEARNLEY
C. PLATOU

Presidents of Financial, Industrial and Commercial Associations.

T. MYRVANG, President, Farmers and Smallholders' Association.

P. VOLCKMAR, President, Norske Handelsbank.

G. KAMSTRUP HEGGE, Manager Norske Kreditbank.

N. MARTENS, Manager Centralbanken for Norge.

E. SKOGSTAD, Manager Christiania Bank and Kreditkasse.

SWEDEN.

J. G. AF JOCHNICK, President of the Swedish State Bank.
V. L. MOLL, First Deputy, Swedish State Bank.
C. E. KINARDER, President, National Debt Office.
J. C. SON KJELLBERG, President, Swedish Bankers Association.
H. LAGERCRANTZ, formerly Envoy, United States; President, Swedish Exporters Association.
A. VENNERSTEN, formerly Minister of Finance; President, Swedish Industrial Association.
K. A. WALLENBERG, formerly Minister of Foreign Affairs; President, Chamber of Commerce of Stockholm.
M. WALLENBERG, Managing Director, Stockholms Enskilda Bank.
O. RYDBECK, Managing Director, Skandinaviska Kreditaktiebolaget.
C. FRISK, Managing Director, Svenska Handelsbanken.

Members of Parliament:
K. H. BRANTING
S. A. A. LINDMAN, formerly Prime Minister; Leader, Conservative Party
L. H. KVARNZELIUS, Leader, Liberal Party
COUNT R. G. HAMILTON, Leader, Liberal Party
E. TRYGGER, formerly Member of High Court of Appeal; Leader, Conservative Party

Professors, Political Economy:
K. G. CASSEL
D. DAVIDSON
E. F. K. SOMMARIN

SWITZERLAND.

G. ADOR, President, International Red Cross Committee.
E. BLUMER, President, National Council.
A. FREY, President, Swiss Union of Commerce and Industry.
R. DE HALLER, Vice-President of the Board of Directors, National Bank.
J. HIRTER, President, Council of National Bank.
DR. E. LAUR, Secretary, Swiss Union of Peasants.
A. PETTAVEL, President, Council of States.
E. LICOT, Federal Judge.
G. PICTET, Banker.
A. SARASIN, President, Swiss Association of Bankers.
M. SCHNYDER, President, Association of Swiss Press.
DR. H. TSCHUMI, President, Swiss Union of Arts and Crafts.

GREAT BRITAIN.

SIR CHARLES ADDIS, Chairman of the Hongkong and Shanghai Banking Corporation, Ltd., Director of the Bank of England.
THE RIGHT HON. H. H. ASQUITH, P.C., formerly Prime Minister.
THE HON. ROBERT H. BRAND, C.M.G., Partner of Lazard Bros. & Co., Ltd., Director of Lloyds' Bank, Ltd.
VISCOUNT BRYCE, G.C.V.O., O.M., formerly Ambassador to the United States.
THE RIGHT HON. LORD ROBERT CECIL, P.C., K.C., formerly Chairman of the Supreme Economic Council of the Allies, formerly Assistant Secretary of State for Foreign Affairs.
THE RIGHT HON. J. R. CLYNES, M.P.
F. C. GOODENOUGH, ESQ., Chairman of Barclay's Bank, Ltd.
EDWARD C. GRENFELL, ESQ., Senior Partner of Messrs. Morgan, Grenfell & Co., Ltd., Director of the Bank of England.
LORD INCHCAPE, G.C.M.G., K.C.S.I., Chairman of the National Provincial and Union Bank, Ltd., and Chairman of the Peninsular and Oriental Steam Navigation Co.
SIR ROBERT KINDERSLEY, K.B.E., Chairman of the National Savings Committee, Director of the Bank of England, Partner of Lazard Bros. & Co., Ltd.
WALTER LEAF, ESQ., Chairman of the London County and Westminster Bank, Ltd.
THE RIGHT HON. REGINALD McKENNA, P.C., Chairman of the London Joint City and Midland Bank, Ltd.
THE RIGHT HON. SIR DONALD MACLEAN, K.B.E., Leader of the Liberal Party in the House of Commons.
THE RIGHT HON. J. H. THOMAS, M.P.
SIR RICHARD VASSAR-SMITH, BART., Chairman of Lloyds' Bank, Ltd.

UNITED STATES OF AMERICA.

WILLIAM H. TAFT, former President of the United States.
ELIHU ROOT, former Secretary of State and ex-Senator.
HERBERT HOOVER, former Director, United States Food Administration.
MYRON T. HERRICK, former Ambassador to France.
HARRY A. WHEELER, former President, United States Chamber of Commerce, and Chairman, International Trade Conference of United States Chamber of Commerce.
ALFRED E. MARLING, President, New York Chamber of Commerce.
WILLIAM FELLOWES MORGAN, President, New York Merchants' Association.

FRANK A. VANDERLIP, Chairman, Banking Committee, New York Chamber of Commerce.
PAUL M. WARBURG, Chairman, Acceptance Council and Committee on Banking of New York Merchants' Association, and former Vice-Governor, Federal Reserve Board.
R. S. HAWES, President American Bankers' Association.
J. P. MORGAN, Partner, J. P. Morgan & Co.
JAMES A. STILLMAN, President, National City Bank, New York.
A. BARTON HEPBURN, Chairman, Chase National Bank, New York.
CHARLES H. SABIN, President, Guaranty Trust Company, New York.
L. L. RUE, President, Philadelphia National Bank.
JAMES B. FORGAN, President, First National Bank, Chicago.
FESTUS J. WADE, President, Mercantile Trust Company, Saint Louis.
F. O. WATTS, President, Third National Bank, Saint Louis.
JOHN SHERWIN, President, First National Bank, Cleveland.
A. W. MELLON, President, Mellon National Bank, Pittsburg.
EMORY W. CLARK, President, First and Old Detroit National Bank.
FREDERICK H. RAWSON, President, Union Trust Company, Chicago.
R. G. RHETT, President, People's National Bank, Charleston, South Carolina, Cleveland.
H. DODGE, Partner, Phelps Dodge Corporation, New York.
DARWIN P. KINGSLEY, President, New York Life Insurance Company.
CHARLES W. ELLIOTT, President Emeritus, Harvard University.
ARTHUR T. HADLEY, President, Yale University.
H. P. HUDSON, President, University, Chicago.
EDWIN A. ALDERMAN, President, University of Virginia.
EDWIN R. A. SELIGMAN, Professor, Economics, Columbia University.
F. W. TAUSSIG, Professor, Economics, Harvard University.
SAMUEL REA, President, Pennsylvania Railroad.
LOUIS W. HILL, Chairman, Great Northern Railroad.
DANIEL WILLARD, President, Baltimore and Ohio Railroad.
GEORGE H. McFADDEN, Partner, Geo. H. McFadden and Brother, Philadelphia.
JULIUS H. BARNES, Partner, Barnes, Ames Co., and Director, United States Grain Corporation.

JOHN G. SHEDD, President, Marshall Field Company, Chicago.

JACOB H. SCHIFF, Partner, Kuhn Loeb Company, New York.

GEORGE M. REYNOLDS, Chairman, Continental and Commercial National Bank, Chicago.

ROBERT L. BROOKINGS, President, Board Trustees, Washington University, Saint Louis.

A. L. MILLS, President, First National Bank, Portland, Oregon.

FRANK B. ANDERSON, President, Bank of California, San Francisco.

HERBERT FLEISCHHACKER, President, Anglo and London Paris National Bank, San Francisco.

HENRY SUZALLO, President, University of Washington, Seattle.

APPENDIX B.

Tables Extracted from "Statements of Production, Price Movements and Currency Expansion in Certain Countries."

(Cmd. 434, November, 1919.)

PRICE MOVEMENTS.

Comparison of Expansion in Currency with Rise in Prices.
Estimated percentage of 1913.

—	Currency of all kinds, 1913=100.	Wholesale prices, 1913=100.	Retail prices of food, 1914=100.
United States (May, 1919)	173	206·0	181
Japan (May, 1919) ...	223	214·6	—
Switzerland (June, 1919) ...	230	—	250
Denmark (July, 1919) ...	240	—	212
United Kingdom (August, 1919)	244	257·2	217
Netherlands (September, 1919)	270	—	203
Sweden (April, 1919) ...	275	339·0	336
Norway (May, 1919) ...	305	—	271
France (June, 1919) ...	365	330·0	Paris 263 Other towns 293
Italy (April, 1919)	440	329·9	281

RATES OF EXCHANGE ON LONDON.

Comparison of Expansion of Currency with Rates of Exchange on London.

	Expansion of currency of all kinds.		Rates of Exchange on London. Per cent. of parity.	
	1 Compared with 1913, 1913=100.	Proportionate figures, U.K.=100.	At date shown in Column 1.	At 7th November, 1919.
United States (August, 1919) ...	171	70	86·4	85·3
Spain (September, 1919)	185	76	87·0	84·1
Japan (May, 1919)...	223	91	92·3	84·5
Switzerland (September, 1919) ...	230	94	93·0	91·5
Denmark (August, 1919)	240	98	106·7	107·5
United Kingdom ...	244	100	—	—
Netherlands (September, 1919) ...	270	111	92·2	90·8
Sweden (September, 1919)	275	113	94·1	97·2
Norway (August, 1919)	305	125	100·9	100·9
France (September, 1919)	375	153	137·6	148·0
Italy (May, 1919) ...	435	178	150·4	183·5
Germany (October, 1919)	875	359	435·1	707·3

INCREASE OF PUBLIC DEBT.

COMPARISON OF PRICE MOVEMENT IN THE UNDERMENTIONED COUNTRIES WITH THE INCREASE OF PUBLIC DEBT, SINCE THE BEGINNING OF THE WAR, PER HEAD OF THE POPULATION AT THE LAST CENSUS.

—	Wholesale prices 1913=100.	Retail prices of food, 1914=100.	Increase of public debt per head of the population since the beginning of the war.
			£
United States ...	206·0	181	55·5
Japan	214·6	—	0·16
Netherlands	—	203	10·1
Denmark	—	212	5·0
United Kingdom ...	257·2	217	157·5
Switzerland	—	250	12·3
Norway	—	271	2·2
Italy	329·9	281	73·0
France	330·0	Paris 263, Other towns 293	114·4
Sweden	339·0	336	3·8